

1 following entry of the Confirmation Order, whichever is later.

2                   In the event that any Class of Creditors of the Debtor does not accept the Plan, the  
3 Debtor reserves the right to request that the Bankruptcy Court confirm the Plan in accordance  
4 with Section 1129(b) of the Bankruptcy Code or otherwise modify the Plan.

5                   **C. BRIEF EXPLANATION OF CHAPTER 11**

6                   Chapter 11 of the Bankruptcy Code is the principal reorganization provision of  
7 the Bankruptcy Code. Pursuant to Chapter 11, a debtor attempts to reorganize its business for  
8 the benefit of the debtor, its creditors, and other parties in interest.

9                   The formulation and confirmation of a plan of reorganization is the principal  
10 purpose of a Chapter 11 case. A plan of reorganization sets forth a proposed method for  
11 compensating the holders of claims and interests in the debtor. A claim or interest is impaired  
12 under a plan of reorganization if the plan provides that the legal, equitable or contractual rights  
13 of the holder of such claim or interest are altered. A holder of an impaired claim or interest is  
14 entitled to vote to accept or reject the plan. Chapter 11 does not require all holders of claims and  
15 interests to vote in favor of a plan in order for the Bankruptcy Court to confirm it. However, the  
16 Bankruptcy Court must find that the plan meets a number of statutory tests before it may approve  
17 the plan. These tests are designed to protect the interests of the holders of claims or interests  
18 who do not vote to accept the plan, but who will nonetheless be bound by the plan's provisions if  
19 it is confirmed by the Bankruptcy Court.

20                   An official committee of unsecured creditors is appointed by the United States  
21 Trustee's office in most Chapter 11 cases to, among other things, negotiate the plan of  
22 reorganization on behalf of the unsecured creditors of the debtor. A committee of unsecured  
23 creditors was not appointed by the United States Trustee in this case.

24                   **II. BACKGROUND AND GENERAL INFORMATION**

25                   **A. PROPERTY DEVELOPMENT**

26                   Salpare and Harbor are the owners of real property on Hayden Island, Portland,

1 Oregon that was to be developed into a luxury waterfront planned community of 204 high-end  
 2 residential water view condominium units commonly known as Salpare Bay (the “Project”).  
 3 Salpare and Harbor own the Project with an undivided 85% and 15% interest, respectively,  
 4 pursuant to a tenancy in common agreement. However, pursuant to the Settlement Agreement,  
 5 the owners of Harbor will transfer their membership interests in Salpare to Salpare; therefore,  
 6 Harbor will no longer own an interest in Salpare or the Property.

7 Salpare began construction in approximately 2005 on the related marina and other  
 8 horizontal improvements. The Project presently includes 24.5 acres of land, a marina, 200 feet  
 9 of beach on the Columbia River, 14 acres of water, 204 slips to accommodate large crafts and  
 10 amenities and facilities such as wireless internet, cable television, laundry, showers and dump  
 11 station facilities.

12 BankFirst, Inc. (“BankFirst”) was the lead lender of 41 participating lenders who  
 13 promised \$63 million in construction financing (the “Loan”) for the Project. However, after it  
 14 received nearly \$1 million in loan fees at the closing of the Loan in December 2006, BankFirst  
 15 was dilatory in funding the Loan. Later, in June 2007, it stopped funding the Loan entirely based  
 16 on a pretextual default, claiming Salpare and Harbor had failed to fulfill certain presold unit  
 17 requirements that BankFirst had previously waived on numerous occasions. Moreover,  
 18 BankFirst misled Salpare into proceeding with construction, even though as it turns out,  
 19 ultimately, it had no ability to fund the Loan. Notably, Salpare was in full compliance with the  
 20 Loan terms, including fulfilling all monthly payment obligations.

21 In the meantime, despite Salpare’s compliance with the Loan, unbeknownst to the  
 22 guarantor Michael DeFrees (“DeFrees”), BankFirst confiscated DeFrees’ \$4 million bank  
 23 account that was provided as additional collateral for the Loan that he had intended to use to  
 24 fund the Project. BankFirst, realizing that it had problems declaring a default under these  
 25 conditions without a release of Salpare’s claims, demanded under a threat of default and  
 26 foreclosure, execution of a first amendment of the Loan documents (the “First Amendment”) that

1 purported to resurrect and reinstate the presale conditions that it waived; required Salpare to  
 2 fulfill the resurrected conditions by selling \$50 million in units in what was ultimately a two-  
 3 week period; retroactively required Salpare to bless BankFirst's unlawful confiscation of  
 4 DeFrees' bank account; and provided for a release and waiver of all claims against BankFirst for  
 5 its wrongful conduct. Salpare and Harbor complained that the First Amendment was impossible  
 6 to fulfill, lacked any consideration and was simply unlawful. BankFirst rejected such  
 7 complaints. BankFirst reiterated its threat of foreclosure and added a promise to negotiate a  
 8 further extension after the First Amendment was executed. Although Salpare executed the First  
 9 Amendment, BankFirst did not negotiate further for an extension as promised.

10                   What Salpare and Harbor did not know, and BankFirst did not disclose to them  
 11 during these events, was that BankFirst was having its own financial problems. Within days  
 12 after Salpare and Harbor signed the First Amendment, on August 7, 2007 BankFirst executed  
 13 with the Federal Reserve an agreement ("Consent Order") which limited its funding of future  
 14 loans to the maximum amount on BankFirst' books as of March 12, 2007, which was about the  
 15 time that BankFirst's funding of the Loan slowed nearly to a stop.

16                   As a result of BankFirst's failure to fund the Loan, all construction at the Project  
 17 ceased. The contractor, Dunn, and subcontractors had performed a substantial amount of work  
 18 for which Salpare could not pay them because of BankFirst's failure to fund the Loan; thus, they  
 19 filed construction liens against the Property. On or about October 26, 2007, the Construction  
 20 Creditors filed an action on their construction claims ("Construction Claims") in that case known  
 21 as *J.E.Dunn Northwest, Inc. v. Salpare Bay, LLC, et. al.* in the Circuit Court of the State of  
 22 Oregon, Multnomah County, Case No. 0710-12536 (the "Dunn Action"). Thereafter, the  
 23 Project deteriorated. The sales agents and team quit; purchasers of the presold units cancelled  
 24 their purchases and withdrew their deposits; and the development came to a halt in all respects  
 25 by the end of 2007.

26                   In the Dunn Action, BankFirst asserted claims based on the Loan against Salpare,

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1 Harbor, DeFrees, Columbia Rim Construction, Inc. and Columbia Rim Corporation (collectively,  
 2 the “Salpare Parties”). The Salpare Parties counterclaimed against BankFirst and the participant  
 3 lenders, originally identified only as the “DOES,” because their identity was not known. The  
 4 Salpare Parties claimed \$130 million in damages, plus any penalties and attorneys’ fees that may  
 5 be awarded for breach of contract, negligence, interference with contract, promissory estoppel,  
 6 conversion, breach of good faith and fair dealing, breach of fiduciary duty, four counts of fraud,  
 7 negligent misrepresentation, rescission and violation of Oregon Racketeer Influenced and  
 8 Corrupt Organization Act.

9                   The Dunn Action was bifurcated between the Construction Claims and the Loan  
 10 claims. When a Limited Judgment was about to be entered in the Dunn Action on the  
 11 Construction Claims, BankFirst’s assets were seized by the Federal Deposit Insurance  
 12 Corporation (“FDIC”). After the FDIC removed the entire Dunn Action, a Limited Judgment  
 13 was entered in the Circuit Court of the State of Oregon on September 9, 2009, which Salpare  
 14 contends had no effect since the Dunn Action had been removed. To further add to the problems  
 15 with that Limited Judgment, it was entered *nunc pro tunc* to April 21, 2009, thus invalidly  
 16 cutting off parties’ appeal rights. Following the transfer of the Dunn Action back to the Circuit  
 17 Court of State of Oregon, an Order Reaffirming the Limited Judgment was signed and entered on  
 18 January 22, 2010, but no separate Limited Judgment was entered on that date and the Order  
 19 Reaffirming the Limited Judgment did not correct the inappropriate *nunc pro tunc* entry that cut  
 20 off parties’ appeal rights.

21                   Dunn contends that the method and timing by which the State Court entered the  
 22 Limited Judgment did not cut off the parties’ appeal rights. Dunn contends that there are four  
 23 key facts concerning the Dunn Action: (1) that the State Court found that the construction liens  
 24 had priority over BankFirst’s position; (2) that the liens cover the entire Property, including the  
 25 Marina; (3) that Salpare stipulated to the amounts due to the plaintiffs in the Dunn Action; and  
 26 (4) that the State Court made detailed findings of fact and conclusions of law.

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1                   After the Dunn Action was returned to the Circuit Court of the State of Oregon, it  
 2 was further bifurcated with BankFirst's and the Salpare Parties' claims removed to Federal Court  
 3 for disposition in the United States District Court for the District of Oregon Case No. 10-373-PK  
 4 (the "Federal Case"). In those proceedings, the Salpare Parties identified and served the  
 5 participant lenders requiring that they appear and defend against the Salpare Parties' claims.<sup>7</sup> In  
 6 the Federal Case, the Salpare Parties and George Killian (the principal of Harbor) on the one  
 7 hand, and the FDIC and participants on the other, entered into a settlement on the record on June  
 8 2, 2010 that resolved all claims between them. In the meantime, Dunn sought to proceed with an  
 9 execution sale on the Limited Judgment for the Construction Claims, with a foreclosure sale  
 10 scheduled for June 8, 2010.

11                   The Salpare Parties, the FDIC for BankFirst, and the loan participants entered into  
 12 a written settlement agreement on or about June 7, 2010, pursuant to which all parties agreed to  
 13 dismiss the Federal Case and the Salpare Parties released their claims against BankFirst, the loan  
 14 participants and the FDIC (the "Settlement"). As a result of the Settlement and in consideration  
 15 of the Salpare Parties' release of their claims (the value of which was equal to or exceeded the  
 16 Loan balance), the FDIC for BankFirst and the loan participants have agreed not to seek payment  
 17 on the Loan from Salpare or Harbor. The only Secured Claims against the Property are those  
 18 held by construction lien claimants and real property taxing authorities, all totaling  
 19 approximately \$7.5 million.

20                   Salpare currently operates a high-end marina business with 204 slips on the  
 21 Property. The Marina was completed in 2007 and became operational in the Spring of 2007.  
 22 The Marina is an extremely attractive and appealing operation situated on the Columbia River,  
 23 having been constructed and dredged at significant cost by Salpare. Salpare maintains a  
 24 clubhouse for the Marina with laundry, kitchen, bathroom and shower facilities and rents out a  
 25

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26                   <sup>7</sup> During the litigation the identity of the participants was learned as the result of an Order obtained by the  
 Salpare compelling BankFirst to provide discovery.

1 yacht sales office. It contracts for catering events, repair and cleaning of boats and provides  
 2 other services and goods for compensation to its lessees. Each slip has dockside access to  
 3 electricity, water and internet service. Moreover, the Marina has extrinsic value in that it is the  
 4 only marina in Oregon that has fee title ownership for each slip.<sup>8</sup> Therefore, there is an  
 5 opportunity for the slips at the Marina to be sold individually and not subject to any leasehold  
 6 interest held by a governmental authority.

7                   Due to the changes in the overall economic climate since 2005, the Debtor now  
 8 plans to construct approximately 371 apartment units on Phase 1 and Phase 2 of the Property.  
 9 The building pads at Building C for the previously planned condominium project are anticipated  
 10 to serve as the foundation for Phase 1 of the proposed multi-family development. Salpare  
 11 intends to develop the Property in two (2) phases, with the first phase comprised of  
 12 approximately 166 apartment units and ancillary improvements.

13                   Salpare currently maintains temporary parking for the Marina on the industrial  
 14 zoned portion of the Property. Salpare has filed an application to construct permanent parking  
 15 for the Marina on the Property and has retained land use counsel, Dorothy Cofield, to assist it in  
 16 obtaining the conditional use application from the City of Portland as well as to possibly divide  
 17 the commercial zoned land from the marina (by either a partition or as a unit of land created by a  
 18 deed of trust metes and bounds legal description), which it believes will generate more options  
 19 for the development of the Property as a multi-family residential and marina project.

20                   Salpare has a term sheet from a reputable well-known lender for the FHA  
 21 221(d)(4) of the National Housing Act loan that it seeks to develop Phase 1 of the Property (the  
 22 “FHA Lender”). Salpare hired Obsidian Finance Group early on in this case to provide financial  
 23 consulting services to it in its endeavors to develop the Property and obtain financing for it.  
 24 Salpare also hired Steven Wiltshire of Marcus & Millichap (“M&M”), a financial services broker.

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<sup>8</sup> Dunn disagrees that the marina slips may be sold individually.

1 An FHA 221(d) mortgage loan is a multifamily construction loan guaranteed by FHA/HUD.  
 2 Unlike some FHA/HUD programs, there is no requirement that the multifamily units be offered  
 3 at below market rents.

4 Salpare's FHA Lender has issued a term sheet to Salpare for an FHA 221(d)  
 5 mortgage loan on the following general terms: (i) a proposed loan amount of \$19,938,200; (ii) a  
 6 current estimated interest rate of 5.75%; (iii) a construction loan term of the construction period  
 7 plus four months, interest only; (iv) a permanent loan term of 40 years or 75% of the remaining  
 8 useful economic life of the Property; (v) no prepayment for 2 years without a fee; (vi) total  
 9 deposits due at application of \$37,500; (vii) a financing fee of 2% of the loan amount, with a  
 10 good faith deposit of .5% and a firm commitment application fee of .3%; (viii) secured by a first  
 11 lien encumbering Phase 1 of the Property. The construction period is to be 14 months to allow  
 12 for 12 months construction and two months for cost certification, which requires Salpare and the  
 13 general contractor to submit a cost certification prepared by an independent public accountant  
 14 upon completion of construction. Upon issuance of a Certificate of Occupancy, the loan will be  
 15 converted to a 40-year fixed term with a 40-year amortization, with a loan rate of 5.75%. The  
 16 loan will be non-recourse. The loan origination fee will be .73% of the loan amount payable at  
 17 closing of the loan.

18 Salpare's projections indicate gross potential rental income of \$2.7 million to \$2.9  
 19 million for just the first 166 units. While occupancy rates have dropped over the past few years,  
 20 the market is improving and established multi-family residential developments in the Portland  
 21 area continue to be feasible.

22 **B. MANAGEMENT**

23 Columbia Rim Corporation ("CR Corp.") is the manager of the Debtor's limited  
 24 liability company. CR Corp.'s shares are owned 50% by Michael DeFrees ("DeFrees") and 50%  
 25 by Christy DeFrees. DeFrees runs the day to day operations of CR Corp. DeFrees is the sole  
 26 member of the Debtor and runs the day to day operations of the Debtor. DeFrees is a native of

1 the Vancouver, Washington area and began his career as a developer by building single family  
 2 residential housing projects in the early 1980s. He then began developing commercial projects  
 3 and has developed hotels, recreational vehicle parks, medical complexes, and apartment  
 4 buildings over his 30-year career. DeFrees is not an employee of the Debtor; rather the Debtor  
 5 pays Gateway National Corporation (“Gateway”) for the services provided to it by Gateway’s  
 6 employees, of which DeFrees is one. DeFrees is shareholder and the President of Gateway. The  
 7 Debtor pays approximately \$5,000 per month for management fees to Gateway for the services  
 8 DeFrees and others perform on its behalf. DeFrees will continue to oversee the operations of the  
 9 Debtor and will continue to be paid from his other entities for such services provided.

### 10 **C. FINANCIAL PERFORMANCE**

11 Attached hereto as Exhibit 4 are the income statements for the Debtor for its fiscal  
 12 years ending in the prior three years. The income statements reflect the expense associated with  
 13 the BankFirst related debt and, thus, do not provide an accurate picture of the Debtor’s true net  
 14 income from its current operations because BankFirst no longer seeks payment of that debt  
 15 pursuant to the Settlement. Additional or more detailed information may be obtained by  
 16 submitting a written request to Debtor’s counsel identifying the information sought.

### 17 **III. THE BANKRUPTCY CASE**

#### 18 **A. THE FILING**

19 The Debtor filed its voluntary petition for relief under Chapter 11 of the  
 20 Bankruptcy Code on June 7, 2010.

#### 21 **B. POST-PETITION DEVELOPMENTS**

22 After the filing of the Petition, the Debtor sought and obtained the following  
 23 orders: (1) an Order Pursuant to 11 USC § 366(a) Finding Adequate Assurance of Payment for  
 24 Future Utility Services (Docket No. 36); (2) an order authorizing the employment of Powell  
 25 Valuation, Inc. as an appraiser for the Debtor’s Property (Docket No. 73); (3) an order  
 26 authorizing the employment of Farleigh Wada Witt as counsel for the Debtor (Docket No. 90);

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1 (4) an order authorizing the employment of Obsidian Finance Group, LLC (“Obsidian”) as a  
 2 financial consultant to the Debtor (Docket No. 80); an order authorizing the employment of  
 3 Marcus & Millichap Capital Corporation as a loan broker to the Debtor (Docket No. 110); and an  
 4 order authorizing the employment of Dorothy Cofield as the Debtor’s land use attorney (Docket  
 5 No. 105). Because the BankFirst debt was eliminated prepetition, there was no need for the  
 6 Debtor to obtain an order authorizing use of cash collateral.

7                   Almost immediately after the Debtor filed its Petition, Dunn filed a motion for  
 8 relief from stay to foreclose its asserted construction lien against the Property, alleging that there  
 9 was no equity in the Property for the Debtor and that it was not necessary for an effective  
 10 reorganization. After a two-day contested hearing before the Court held on August 3 and 4,  
 11 2010, the Court entered an order denying Dunn’s motion and holding that there is equity in the  
 12 Property over the amount of Dunn’s asserted secured claim, that the Property is necessary for an  
 13 effective reorganization and that the Debtor did not file this case in bad faith. This Court also  
 14 found that this is a single asset real estate case under 11 USC §101(51B) and that, thus, the  
 15 provisions of 11 USC §362(d)(3) apply.

16                   The US Trustee’s Office has not appointed an unsecured creditors committee in  
 17 this case.

18                   As previously discussed in Section I(B), *supra*, the Debtor, Harbor and the  
 19 Construction Creditors engaged in lengthy settlement discussions with the assistance of Judge  
 20 Hogan, which culminated in the parties agreeing to the Settlement Agreement attached hereto as  
 21 Exhibit 2. The Settlement Agreement was the subject of a separate notice of intent to settle for  
 22 this Court’s approval. The Settlement Agreement was approved by this Court by Order entered  
 23 June 13, 2011. Pursuant to the Settlement Agreement, the Construction Creditors and Harbor  
 24 have agreed that they will consent to the Debtor’s Plan.

25                   **IV. ASSETS AND LIABILITIES**

26                   **A. ASSETS**

1                   **1.       Real Property.**

2                   The Debtor's assets consist primarily of the Property, which is comprised of a  
3    204-slip, fully operating high-end marina on the Columbia River, a commercially zoned parcel  
4    of land about 24 acres in size that contains a partially constructed parking garage that may be  
5    used in the 375-unit apartment complex contemplated by the Debtor's Plan, and an industrially  
6    zoned parcel of land about 1.8 acres in size that currently houses temporary parking for the  
7    marina and a high-end sales trailer leased by a yacht sales company, Royal Marine.

8                   **2.       Other Property.**

9                   The Debtor's other assets consist of a claim against its co-owner of the Property,  
10   Harbor for the amounts Harbor owes it under the joint tenancy agreement. The Debtor had sued  
11   Harbor to recover on that claim in Adversary Proceeding No. 10-03252, but that claim is to be  
12   settled under the Settlement Agreement for the transfer of the Killians' membership interests in  
13   Harbor to Salpare and, as inducement for Salpare to accept such assignment, payment by Harbor  
14   to Salpare of \$40,000. The Debtor's remaining assets include the sales trailer leased to Royal  
15   Marine worth approximately \$273,000, the lease with Royal Marine, and the sales office  
16   furniture and office equipment, formerly in the sales trailer when it housed the Debtor's sales  
17   team for the condominium Project, worth approximately \$42,000.

18                   **B.       LIABILITIES**

19                   The Debtor's only asserted Secured Creditors in this case are Creditors asserting  
20   that they hold a claim secured by a perfected construction lien asserted under Oregon law or by  
21   judgment and the county taxing authority. For the reasons set forth in Section II.A. above, the  
22   Debtor does not concede that the judgment upon which the asserted Secured Creditors rely is  
23   valid or that their purported Construction Liens constitute a lien superior in right to the Debtor or  
24   its interests. The amount asserted to be perfected Construction Liens under Oregon law or by  
25   judgment is approximately \$7.1 million. Multnomah County's personal property and real  
26   property tax claim is approximately \$234,000. The Secured Creditors disagree with the Debtor's

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1 position regarding their Construction Liens and content that they have valid judgment liens  
 2 against the Property. The Settlement Parties are settling their claims and disputes under the  
 3 Settlement Agreement.

4 As previously explained, there is no other secured debt in this case because the  
 5 BankFirst debt was eliminated prepetition.

6 **C. UNSECURED CREDITORS**

7 The Debtor owes approximately \$3 million to unsecured creditors, plus  
 8 approximately \$10 million to the Debtor's sole member, Mr. DeFrees. The Plan contains three  
 9 classes of unsecured creditors: the Common Fund Creditor, Small Unsecured Creditors and  
 10 General Unsecured Creditors. The only Common Fund Creditor is Stoel Rives, LLP ("Stoel  
 11 Rives"), which litigated and negotiated the Federal Case that resulted in the Settlement and the  
 12 forgiveness of the Loan.<sup>9</sup> Stoel Rives' claim is approximately \$500,000. Small Unsecured  
 13 Creditors are Creditors holding claims of \$2,000 or less. The total current outstanding amount  
 14 due to Creditors holding Claims of \$2,000 or less is approximately \$32,000.

15 **D. ADMINISTRATIVE EXPENSES**

16 The Debtor has retained Farleigh Wada Witt as its general bankruptcy counsel in  
 17 this case (Docket No. 90) and has retained Dorothy Cofield as its land use counsel (Docket No.  
 18 105). The Debtor has also retained Obsidian Finance Group, LLC (Docket No. 80) as its  
 19 financial consultant, and has retained Marcus & Millichap Capital Corporation as its loan broker  
 20 (Docket No. 110). Debtor also hired Powell Valuation, Inc. as its real estate appraiser to prepare  
 21 an appraisal and to testify at the hearing on Dunn's motion for relief from stay (Docket No. 67).  
 22 The Debtor anticipates that it will incur approximately \$250,000 in professional fees and  
 23 expenses through confirmation of the Plan.

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 26 <sup>9</sup> Under the common fund doctrine, a litigant or lawyer who recovers a common fund for the benefit of persons other than himself or his client is entitled to a reasonable attorney's fee from the fund as a whole. *See, e.g., Boeing, Co. v. Van Gemert*, 444 U.S. 472, 478, 100 S.Ct. 745, 62 L.Ed.2d 676 (1980).

1                   **V.       DESCRIPTION OF PLAN OF REORGANIZATION**

2                   **A.       UNCLASSIFIED CLAIMS**

3                   Administrative Expense Claims and Priority Tax Claims are not classified. An  
 4                   Administrative Expense Claim is a Claim against the Debtor constituting an expense of  
 5                   administration of the Bankruptcy Case allowed under Section 503(b) of the Bankruptcy Code  
 6                   including, without limitation, the actual and necessary costs and expenses of preserving the  
 7                   estate and operating the Debtor's businesses during the Case, any indebtedness or obligations  
 8                   incurred by the Debtor during the pendency of the Case in connection with the rendition of  
 9                   services to the Debtor, and compensation for legal and other professional services and  
 10                  reimbursement of expenses and statutory fees payable to the United State Trustee.

11                  A "Priority Tax Claim" is a Claim of a governmental unit of the kind entitled to  
 12                  priority under Section 507(a)(8) of the Bankruptcy Code or that would otherwise be entitled to  
 13                  priority but for the Secured status of the Claim. The Debtor owes approximately \$243,000 in  
 14                  property taxes. The property taxes will be paid in accordance with the requirements of Section  
 15                  1129 of the Bankruptcy Code in payments over a period ending five years from the Petition  
 16                  Date.

17                  Pursuant to the Plan of Reorganization, Administrative Expense Claims will be  
 18                  paid in full on the latter of the Effective Date or the date on which any such Administrative  
 19                  Expense Claim becomes an Allowed Claim. However, the Administrative Expense Claims  
 20                  representing liabilities incurred in the ordinary course of business (including amounts owed to  
 21                  vendors and suppliers that have sold products or furnished services to the Debtor after the  
 22                  Petition Date) will be paid in accordance with the written terms and conditions of the particular  
 23                  transactions and any other agreements relating thereto. The Debtor will tender a list of such  
 24                  ordinary course Administrative Expense Claims at the confirmation hearing.

25                   **B.       CLASSIFIED CLAIMS**

26                   **1.       Overall Plan Implementation.**

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1                   The Debtor will obtain either FHA loans or conventional loans to develop the  
 2 Property and will pay creditors from a combination of loan proceeds and operating income.

3                   Initially, the Debtor will obtain a Priming Loan to make parking lot  
 4 improvements, to make permit-related payments, to pay professional fees associated with the  
 5 bankruptcy case, partition of the Property, loan costs and fees and other site and surveying work.  
 6 The general terms of the Priming Loan include: (i) \$500,000, with the possibility of obtaining an  
 7 additional \$250,000 upon receipt of a fully-executed commitment letter from a bank or other  
 8 financial institution agreement to loan Salpare the funds necessary for the development of  
 9 Phase1; (ii) Wall Street prime rate plus 10% floating daily; (iii) \$250,000 to be paid to the  
 10 Priming Loan lender on or before June 30, 2012 as set forth in the Settlement Agreement; (iv)  
 11 \$8,000 application fee; (v) loan fee of 5% upon loan closing; (vi) secured by a first trust deed on  
 12 the Property; and (vii) release of trust deed by Priming Loan lender on Phase 1 at closing of  
 13 Phase 1 FHA Loan. Pursuant to the Settlement Agreement, the Construction Creditors shall  
 14 subordinate their liens to the trust deed of the Priming Loan lender.

15                  As discussed previously, an FHA Lender has issued a term sheet to the Debtor for  
 16 an FHA 221(d)(4) loan for Phase 1 of the construction on the Property on or before June 30,  
 17 2012 in the approximate amount of \$20 million and Debtor will pay the Discounted Judgment  
 18 Amount to the Class 2, 3, 4, 5 and 6 Secured Creditors on their claims in three payments on June  
 19 30, 2012, October 31, 2012 and June 30, 2013. The Debtor will obtain the loan to commence  
 20 construction of Phase 1 in approximately June of 2012 with funding provided by the FHA  
 21 Lender. By October 31, 2012, the Debtor will refinance the Marina and make the second  
 22 installment payment to the Secured Creditors as well as the first payment to Multnomah County,  
 23 and to the extent possible under the terms of the Plan, the first payment to the Common Fund  
 24 Creditor, to General Unsecured Creditors and the final payment to the Small Unsecured  
 25 Creditors. The Debtor intends to obtain financing for Phase 2 of the construction on the Property  
 26 in approximately June of 2013, at which time the Debtor will pay the Secured Creditors their

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1 final payment pursuant to the Settlement Agreement. The Debtor plans to pay Small Unsecured  
2 Creditors, the Common Fund Creditor and General Unsecured Creditors from Net Income.

3 The Debtor proposes to implement this Plan as set forth in the Plan projections  
4 attached hereto as Exhibit 5.

5 **2. Class 1 (Other Priority Claims).**

6 Class 1 is unimpaired. Each holder of an Allowed Class 1 Claim will be paid in  
7 full in Cash the amount of its Allowed Class 1 Claim, including all interest, costs, fees and  
8 charges provided for under any agreement under which such Claim arose or is otherwise allowed  
9 by law, on the latter of (a) the Effective Date or (b) the date on which such Claim becomes  
10 Allowed, unless such holder shall agree or has agreed to a different treatment of such Claim  
11 (including any different treatment that may be provided for in any documentation, agreement,  
12 contract, statute, law or regulation creating and governing such Claim. The Debtor is not aware  
13 of the existence of any Other Priority Claims.

14 **3. Class 2 (City of Portland Secured Claim).**

15 Class 2 consists of the Claim asserted by the City of Portland under ORS 223, the  
16 city charter of Portland and the Portland City Code, as set forth in the Dunn Action judgment in  
17 the amount of \$152,028.81 as a Secured Claim. The holder of an Allowed Secured Class 2  
18 Claim will be paid as set forth in the Settlement Agreement its share of the Discounted Judgment  
19 Amount as follows: 40% on or before June 30, 2012; 40% on or before October 31, 2012 and  
20 the remaining 20% on or before June 30, 2013.

21 **4. Class 3 through 6 (Construction Liens).**

22 Classes 3 through 6 are impaired and consist of Claims asserted by: Dunn (Class  
23 3), TKS (Class 4), BMI (Class 5) and Myhre (Class 6). Each Creditor holding a Class 3, 4, 5 or  
24 6 Allowed Claim secured by a perfected construction lien will retain its lien with the same  
25 priority such lien had on the Petition Date, except as set forth herein at Section 6.3 of the Plan.  
26 The Allowed Claims in Classes 3, 4, 5 and 6 will be paid the Discounted Judgment Amount,

1 together with interest accruing from and after the Effective Date at the rate of 3.25% per annum  
2 from the proceeds of the financing of the Property, consistent with the terms of the Settlement  
3 Agreement. The first payment to Classes 3, 4, 5 and 6 of 40% of the Discounted Judgment  
4 Amount will occur on the closing of the loan Debtor will obtain to develop Phase 1 or June 30,  
5 2012, as set forth in the Settlement Agreement. On or before October 31, 2012, the Debtor  
6 anticipates refinancing the Marina and will pay 40% of the Discounted Judgment Amount to  
7 Classes 3, 4, 5 and 6 as set forth in the Settlement Agreement. The Debtor intends to obtain  
8 financing to develop Phase 2 on or before June 30, 2013 and will pay the balance of the  
9 Discounted Judgment Amount to Classes 3, 4, 5 and 6 as set forth in the Settlement Agreement.

**5. Class 7 (County Secured Claim for Property Taxes).**

## 6. Class 8 (Small Unsecured Claims).

16 Class 8 is impaired. Each holder of a Class 8 Claim will be paid in Cash an  
17 amount equal to 25% of their Allowed Claim on or before October 31, 2012 or 30 days of the  
18 date their Claim becomes an Allowed Claim, whichever is later. Thereafter, each holder of a  
19 Class 8 Claim will be paid in Cash an amount equal to 75% of their Allowed Claim on or before  
20 June 30, 2013. The total costs of payment to current Small Unsecured Creditors will be  
21 approximately \$31,000.

## **7. Class 9 (Common Fund Claim).**

23 Class 9 is impaired. Class 9 consists solely of the claim of Stoel Rives. The  
24 holder of a Class 9 Allowed Claim shall be paid by receiving 30% of the Net Income generated  
25 by the Reorganized Debtor for each calendar quarter beginning as early as the quarter ending  
26 December 31, 2012 and ending December 31, 2017, so long as the Debtor has amounts in excess

**Page 21 - DEBTOR'S THIRD AMENDED CHAPTER 11 DISCLOSURE STATEMENT  
(June 13, 2011)**

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1 of \$500,000 in ending cash balances, and to the extent that it does not cause the Debtor to default  
2 under its loan documents, until the Class 9 Allowed Claim is paid in full without interest.  
3 Should the Court determine that Stoel Rives' Claim should not be classified separately from the  
4 Class 10 General Unsecured Claims, then Stoel Rives' Claim shall be treated as a Class 10  
5 General Unsecured Claim.

6 **8. Class 10 (General Unsecured Claims).**

7 Class 10 is impaired. After payment of the Class 9 Allowed Claim, each holder  
8 of a Class 10 Allowed Claim shall be paid by receiving a Pro Rata share of 30% of the Net  
9 Income generated by the Reorganized Debtor for each calendar quarter beginning as early as the  
10 quarter ending December 31, 2012 and ending December 31, 2017, so long as the Debtor has  
11 amounts in excess of \$500,000 in ending cash balances and to the extent it does not cause the  
12 Debtor to default under its loan documents. However, it is unlikely that Class 10 Allowed  
13 Claims will begin receiving payments until the quarter ending March 31, 2017. In no event shall  
14 Class 10 Allowed Claims receive less than a Pro Rata distribution equal to 10% of each Class 10  
15 Allowed Claim amount. General Unsecured Claims total approximately \$1.7 million, plus  
16 approximately \$10.9 million to General Unsecured Claims owing to Michael DeFrees, plus any  
17 Deficiency Claims of Secured Claims. Mr. DeFrees has agreed to subordinate payments to him  
18 on his General Unsecured Claim and he will be treated as a Class 11 Claimant. Should the Court  
19 determine that Stoel Rives' Claim should not be classified separately from the Class 10 General  
20 Unsecured Claims, then Stoel Rives' Claim shall be treated as a Class 10 General Unsecured  
21 Claim.

22 **9. Class 11 (Subordinated Claims).**

23 Class 11 is impaired. Holders of subordinated claims will be paid a Pro Rata  
24 share of all remaining Unsecured proceeds after Holders of allowed Class 9 and 10 Claims have  
25 been paid in full.

26 **10. Class 12 (Interests).**

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1                   Class 12 is impaired. The holder of the Class 12 Claims are the holders of all  
 2 equity interests in the Debtor. As a result of the Settlement Agreement, the owners of Harbor  
 3 will transfer their membership interests in Harbor to Salpare. The interests of Salpare owned by  
 4 Harbor will then be cancelled. All remaining equity interests will be retained by Mr. DeFrees in  
 5 exchange for the subordination of his \$10.9 million General Unsecured Claim.

6                   **C.        EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

7                   The Bankruptcy Code gives Debtor the right, after commencement of their  
 8 Chapter 11 cases, subject to the approval of the Bankruptcy Court, to assume or reject executory  
 9 contracts and unexpired leases. Generally, an “executory contract” is a contract under which  
 10 material performance (other than payment of money) is still due by each party. The Plan  
 11 provides for assumption of all executory contracts and leases.

12                  If an executory contract or unexpired lease is or has been rejected, the Creditor  
 13 may file a Proof of Claim for damages resulting from such rejection. The Plan provides that a  
 14 Proof of Claim with respect to any such Claim must be Filed no later than 30 days after approval  
 15 of the Bankruptcy Code of the rejection of the relevant executory contract or unexpired lease or  
 16 30 days after the Effective Date, whichever is sooner. Any such Claim shall constitute an  
 17 Unsecured Claim to the extent that such Claim is finally treated as an Allowed Claim. To the  
 18 extent the Debtor rejects an unexpired lease of nonresidential real property, the Claim for  
 19 damages resulting from such rejection will be limited to the amount allowed under the  
 20 Bankruptcy Code.

21                  Upon assumption of an executory contract or unexpired lease, the Debtor must  
 22 cure or provide adequate assurance of prompt cure of any monetary defaults. The Plan provides  
 23 that the Reorganized Debtor will cure all defaults, if any, in the ordinary course of business and  
 24 will cure any monetary defaults, if any, promptly. All assumed executory contracts and leases  
 25 will be automatically assigned to the Reorganized Debtor as of the Effective Date. The Debtor  
 26 assumed the leases and executory contracts listed on Exhibit 6.

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1                   **D.       EFFECT OF CONFIRMATION**

2                   **1.       DISCHARGE**

3                   The treatment of, and consideration received by, holders of Allowed  
4   Claims and Allowed Interests pursuant to the Plan will be in full satisfaction, release and  
5   discharge of their respective Claims against or interests in the Debtor. The Confirmation Order  
6   shall discharge the Debtor from any liability that arose before the Effective Date as provided in  
7   Sections 524 and 1141 of the Bankruptcy Code, and any debt and liability of a kind specified in  
8   Sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not: (a) a Proof of Claim  
9   based on such debt or liability is filed or deemed filed under Section 501 of the Bankruptcy  
10   Code; (b) a Claim based on such debt or liability is Allowed; or (c) the holder of the Claim based  
11   on such debt or liability has accepted the Plan.

12                   **2.       REVESTING, OPERATION OF BUSINESS**

13                   All property of the estates shall vest in Reorganized Debtor on the  
14   Effective Date free and clear of all rights, claims, liens charges, encumbrances and interests,  
15   except as otherwise provided in the Plan.

16                   **3.       INJUNCTION**

17                   Except as otherwise expressly provided in the Plan, all persons who have  
18   held, hold or may hold Claims, or who may have held, hold or may hold any Interest, are  
19   permanently enjoined from and after the Effective Date from (a) commencing or continuing in  
20   any manner any action or other proceedings of any kind with respect to any Claims or Interests  
21   against Reorganized Debtor; (b) enforcing, attaching, collecting or recovering by any manner or  
22   any means any judgment, award, decree or order against Reorganized Debtor; (c) creating,  
23   perfecting or enforcing any encumbrances of any kind against Reorganized Debtor with respect  
24   to any such Claim except as specifically set forth in the Plan; (d) asserting any setoff, right of  
25   subrogation or recoupment of any kind against any obligation due to the Debtor, Reorganized  
26   Debtor or their property; and (e) proceeding in any manner in any place whatsoever that does not

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1 conform to, does not comply with, or is inconsistent with the provisions of the Plan or the order  
2 confirming the Plan.

**4. MODIFICATION OF THE PLAN; REVOCATION OR  
WITHDRAWAL OF THE PLAN**

Subject to Section 1127 of the Bankruptcy Code and the Settlement Agreement, the Debtor reserves the right to alter, amend or modify the Plan before its substantial consummation so long as the treatment of holders of Claims and Interests under the Plan are not adversely affected.

## 5. RETENTION OF JURISDICTION

Notwithstanding the entry of the Confirmation Order on the Effective Date having occurred and subject to the Settlement Agreement, the Bankruptcy Court shall retain exclusive jurisdiction over all matters arising out of or relating to the Chapter 11 Case, including, but not limited to, the following matters: (a) to hear and determine any pending applications for the rejection of executory contracts or unexpired leases, and the allowance of Claims resulting therefrom; (b) to determine any adversary proceedings, applications, contested matters or other litigative matters pending on the Effective Date or Filed prior to the closing of the case; (c) to ensure that distributions to holders of Allowed Claims are accomplished; (d) to hear and determine objections to or requests for estimations of Claims, including any objections to the classification of any Claim, and to allow, disallow and/or estimate any Claim in whole or in part; (e) to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified or vacated; (f) to issue any appropriate orders in aid of execution of the Plan or to enforce the Confirmation Order and/or the discharge, or the effect of such discharge, provided to the Debtor; (g) to hear and determine any applications to modify the Plan, to cure any defect or omission or to reconcile any inconsistency in the Plan or in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order; (h) to hear and determine all applications for compensation and reimbursement of expenses of

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1 professionals or members of the Creditors Committee under the Bankruptcy Code; (i) to hear and  
2 determine disputes arising in connection with the interpretation, implementation and  
3 enforcement of the Plan; (j) to hear and determine other issues presented or arising under the  
4 Plan; (k) to hear and determine any other matters related hereto and not inconsistent with  
5 Chapter 11 of the Bankruptcy Code; and (l) to enter a final decree closing the Chapter 11 Case.

6 **6. UNITED STATES TRUSTEE FEES**

7 Reorganized Debtor shall be responsible for timely payment of fees  
8 incurred pursuant to 28 USC § 1930(a)(6) until the case is closed, converted or dismissed. After  
9 confirmation, Reorganized Debtor shall serve on the United States Trustee a monthly financial  
10 report for each month, or portion thereof, that the case remains open. The monthly financial  
11 report shall include a statement of all disbursements made during the course of the month,  
12 whether or not pursuant to the Plan.

13 **7. AVOIDANCE ACTIONS.**

14 The Debtor has not done an analysis of possible preference or fraudulent  
15 transfer actions. The Debtor has not budgeted Professional Fees to pursue preference claims, but  
16 has also not budgeted for any recovery. If any such claims exist, the Professional Fees would  
17 presumably be covered by any recoveries. The Debtor will complete a preference analysis  
18 before the hearing date on Confirmation. The Plan preserves all avoidance actions to the extent  
19 any exist.

20 **VI. VOTING PROCEDURES AND CONFIRMATION OF A PLAN.**

21 **A. BALLOTS AND VOTING DEADLINE**

22 A ballot to be used for voting to accept or reject the Plan is enclosed with each  
23 copy of this Disclosure Statement mailed to all Creditors entitled to vote. After carefully  
24 reviewing this Disclosure Statement and its exhibits, including the Plan, please indicate your  
25 acceptance or rejection of the Plan by voting in favor or against the Plan on the enclosed ballot as  
26 directed below.

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1                   The Bankruptcy Court had directed that, to be counted for voting purposes, ballots  
2 for acceptance or rejection of the Plan must be received no later than 4:00 p.m. Pacific time, on  
3 \_\_\_\_\_, 2011 by the Debtor at the following address:

4                   Farleigh Wada Witt  
5                   Attn: Diane Fallon  
6                   121 SW Morrison, Ste. 600  
7                   Portland, OR 97204

8                   or via facsimile transmission to Diane Fallon at (503) 228-1741, or via e-mail in pdf format to  
9                   dfallon@fwqlaw.com.

10                  Holders of each Claim that was scheduled by the Debtor or with respect to which  
11 a Proof of Claim has been Filed for which no objection is pending will receive ballots and are  
12 permitted to vote based on the amount of the Proof of Claim. If no Proof of Claim has been  
13 Filed, then the vote will be based on the amount scheduled by the Debtor in its Schedules.  
14 Holders of Disputed Claims who have settled their dispute with the Debtor are entitled to vote  
15 the settlement amount of their Claim. The Bankruptcy Code provides that such votes will be  
16 counted unless the Claim has been disputed, disallowed, disqualified or suspended prior to  
17 computation of the vote on the Plan. The Claim to which an objection has been Filed is not  
18 allowed to vote unless and until the Bankruptcy Court rules on the objection. The Bankruptcy  
19 Code provides that the Bankruptcy Court may, if requested to do so by the holder of such claim,  
20 estimate or temporarily allow a Disputed Claim for the purposes of voting on the Plan.

21                  If a person holds Claims in more than one class entitled to vote on the Plan, such  
22 person will be entitled to complete and return a ballot for each Class. If you do not receive a  
23 ballot or if a ballot is damaged or lost, please contact:

24                  Farleigh Wada Witt  
25                  Attn: Diane Fallon  
26                  121 SW Morrison, Ste. 600  
27                  Portland, OR 97204  
28                  Telephone Number: (503) 228-6044

29                  All persons entitled to vote on the Plan may cast their vote for or against the Plan

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1 by completing, dating and signing the enclosed ballot and returning it, by First Class Mail or  
 2 hand delivery, to the Debtor, at the address indicated above. In order to be counted, all ballots  
 3 must be executed and received at the above address no later than 4:00 Pacific time on  
 4 \_\_\_\_\_, 2011. Any ballots received after 4:00 p.m. Pacific time on \_\_\_\_\_, 2011 will  
 5 not be included in any calculation to determine whether the parties entitled to vote on the Plan  
 6 have voted to accept or reject the Plan.

7                   Ballots may be received by the Debtor by facsimile transmission to Farleigh  
 8 Wada Witt, Attn: Diane Fallon at (503) 228-1741. Ballots sent by facsimile transmission will be  
 9 counted if faxed to Ms. Fallon by 4:00 p.m. Pacific time on \_\_\_\_\_, 2011.

10                  When a ballot is signed and returned without further instruction regarding  
 11 acceptance or rejection of the Plan, the signed ballot shall be counted as a vote accepting the  
 12 Plan. When a ballot is returned indicating acceptance or rejection of the Plan but is unsigned, the  
 13 unsigned ballot will not be included in any calculation to determine whether parties entitled to  
 14 vote on the Plan have voted to accept or reject the Plan. When a ballot is returned without  
 15 indicating the amount of the Claim, the amount shall be as set forth on the Debtor's Schedules or  
 16 any Proof of Claim Filed with respect to such Claim.

## 17                  B.        PARTIES ENTITLED TO VOTE

18                  Pursuant to Section 1126 of the Bankruptcy Code, each class of impaired claims  
 19 or interests that is not deemed to reject the Plan is entitled to vote to accept or reject the Plan.  
 20 Any holder of an Allowed Claim that is in an impaired class under the Plan, and whose Class is  
 21 not deemed to reject the Plan, is entitled to vote. A Class is "impaired" unless the legal,  
 22 equitable and contractual rights of the holders of claims in that Class are left unaltered by the  
 23 Plan or if the Plan reinstates the Claims held by members of such Class by (1) curing any  
 24 defaults, (2) reinstating the maturity of such claim, (3) compensating the holder of such claim for  
 25 damages that result from the reasonable reliance on any contractual provision of law that allows  
 26 acceleration of such claim and (4) otherwise leaving unaltered any legal, equitable or contractual

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1 right of which the Claim entitled the holder of such claim. Because of their favorable treatment,  
2 classes that are not impaired are conclusively presumed to accept the Plan. Accordingly, it is not  
3 necessary to solicit votes from the holders of claims in classes that are not impaired.

4 Classes of Claims or Interests that will not receive or retain any money or  
5 property under a Plan on account of such Claims or Interests are deemed, as a matter of law  
6 under Section 1126(g) of the Bankruptcy Code, to have rejected the Plan and are likewise not  
7 entitled to vote on the Plan. The current ownership interests classified as Class 10 are such a  
8 class and are deemed to have rejected the Debtor's Plan.

9 Class 1 (Other Priority Creditors) and Class 6 (County Secured Claim for  
10 Property Taxes) are not impaired and, therefore, are deemed to have accepted the Plan. All other  
11 Classes of Claims are impaired under the Plan, and persons holding Claims are entitled to vote to  
12 accept or reject the Plan.

13 **C. VOTES REQUIRED FOR CLASS ACCEPTANCE OF THE PLAN**

14 As a condition to confirmation, the Bankruptcy Code requires that each impaired  
15 Class of Claims or Interests accept the Plan, subject to the exceptions described below in the  
16 section entitled "Cram Down of the Plan." At least one impaired Class of Claims must accept  
17 the Plan in order for the Plan to be confirmed.

18 For a Class of Claims to accept a plan, Section 1126 of the Bankruptcy Code  
19 requires acceptance by Creditors that hold at least two-thirds in dollar amount and a majority in  
20 number of the Allowed Claims of such Class, in both cases counting only those claims actually  
21 voting to accept or reject the Plan. If the Plan is confirmed, the Plan will be binding with respect  
22 to all holders of Claims and Interests in each Class, including Classes and members of Classes  
23 that did not vote or that voted to reject the Plan.

24 **D. "CRAM DOWN" OF THE PLAN**

25 If the Plan is not accepted by all of the Impaired Classes of Claims, the Plan may  
26 still be confirmed by the Bankruptcy Court pursuant to Section 1129(b) of the Bankruptcy

1 Code's "Cram Down" provision if the Plan has been accepted by at least one Impaired Class of  
2 Claims, without counting the acceptances of any Insiders of the Debtor, and the Bankruptcy  
3 Code determines, among other things, that the Plan "does not discriminate unfairly" and "is fair  
4 and equitable" with respect to each non-accepting Impaired Class of Claims or Interests. The  
5 Debtor believes that the Plan can be confirmed even if it is not accepted by all impaired Classes  
6 of Claims.

7 **E. CONFIRMATION HEARING**

8 The Bankruptcy Court has scheduled a hearing on confirmation of the Plan to  
9 commence on \_\_\_\_\_, 2011, at \_\_\_\_\_. The Confirmation Hearing will be held at  
10 the United States Bankruptcy Court for the District of Oregon, Courtroom No. 4, 1001 SW Fifth  
11 Avenue, 9<sup>th</sup> Floor, Portland, Oregon, before the Honorable Trish M. Brown, United States  
12 Bankruptcy Judge. At the hearing, the Bankruptcy Court will consider whether the Plan satisfies  
13 the various requirements of the Bankruptcy Code, including whether it is feasible and whether it  
14 is in the best interests of the creditors of the Debtor. At that time, the Debtor will submit a report  
15 to the Bankruptcy Court concerning the votes for acceptance or rejection of the Plan by the  
16 persons entitled to vote thereon.

17 Section 1128(b) of the Bankruptcy Code provides that any party in interest may  
18 object to confirmation of the Plan. Any objections to confirmation of the Plan must be made in  
19 writing and filed with the Bankruptcy Court and received by counsel for the Debtor no later than  
20 \_\_\_\_\_, 2011, by 4:00 p.m. Pacific time. Unless an objection to confirmation is timely filed  
21 and received, it may not be considered by the Bankruptcy Court.

22 **VII. LIQUIDATION ANALYSIS**

23 A Plan of Reorganization cannot be confirmed unless the Bankruptcy Court finds  
24 that the Plan is in the "best interest of creditors" of holders of claims against, and interests in, the  
25 debtor subject to such plan. The best interest test is satisfied if the plan provides each dissenting  
26 or non-voting member of each impaired Class with a recovery not less than the recover such

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1 member would receive if the debtor was liquidated in a hypothetical case under Chapter 7 of the  
 2 Bankruptcy Code by a Chapter 7 Trustee. The Debtor believes that the holders of impaired  
 3 Claims will receive more than they would receive under a Chapter 7 liquidation. In applying the  
 4 "best interest" test, the Bankruptcy Court would ascertain the hypothetical recovery in a Chapter  
 5 7 proceeding to Secured Creditors, priority claimants, general Unsecured Creditors and equity  
 6 interest holders. The hypothetical Chapter 7 recoveries would then be compared with the  
 7 distribution offered to each Class of Claims or Interests under the Plan to determine that the Plan  
 8 satisfied the "best interest" test set forth in the Bankruptcy Code.

9                   A copy of the Debtor's tabulation liquidation analysis is attached hereto as  
 10 Exhibit 7. The liquidation table shows that upon a liquidation of the Debtor, there would be no  
 11 funds available for distribution to Unsecured Creditors.

12                   **VIII. CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE  
 13 PLAN**

14                   Circular 230 Disclaimer: There are certain U.S. federal income tax consequences  
 15 associated with the Plan discussed in Exhibit 8 to this Disclosure Statement. To ensure  
 16 compliance with requirements imposed by the Internal Revenue Service, we inform you that (a)  
 17 any U.S. federal tax advice contained in this communication (and specifically in Exhibit 8) is not  
 18 intended or written to be used or relied upon, and cannot be used or relied upon, for the purpose  
 19 of (1) avoiding tax-related penalties under the Internal Revenue Code of 1986, as amended, or  
 20 (2) promoting, marketing or recommending to another party any transaction or tax matter(s)  
 21 addressed herein, and (b) this discussion was written in connection with debtor soliciting  
 22 acceptances of the plan through this Disclosure Statement.

23                   The discussion of tax consequences on Exhibit 8 is intended only as a summary of  
 24 certain U.S. federal income tax consequences of the Plan and is not a substitute for careful tax  
 25 planning with a tax professional. The above discussion is for informational purposes only and is  
 26 not tax advice. The tax consequences are in many cases uncertain and may vary depending on

1 the particular situation of a holder of an allowed claim, or any equity interest holder's particular  
2 circumstances. Accordingly, each holder of an Allowed Claim and each equity interest holder is  
3 urged to consult its tax advisor about the federal, state, local and applicable foreign income and  
4 other tax consequences of the Plan.

5 **IX. ACCEPTANCE AND CONFIRMATION OF THE PLAN**

6 **A. CONFIRMATION HEARING**

7 The Bankruptcy Court has scheduled a hearing on confirmation of the Plan on  
8 \_\_\_\_\_, 2011 at \_\_\_\_\_. The hearing will be held at the United States Bankruptcy Court for  
9 the District of Oregon, Courtroom No. 4, 1001 SW Fifth Avenue, Portland, Oregon 97204,  
10 before the Honorable Trish M. Brown, United State Bankruptcy Judge. At that hearing, the  
11 Bankruptcy Court will consider whether the Plan satisfied the various requirements of the  
12 Bankruptcy Code, including whether it is feasible, and whether it is in the best interest of  
13 Creditors and Interest Holders of the the Debtor. Debtor will submit a report to the Bankruptcy  
14 Court at that time concerning the votes for acceptance or rejection of the Plan by the parties  
15 entitled to vote thereon. Any objection to confirmation of the Plan must be timely filed as stated  
16 in Section II.E. above.

17 **B. REQUIREMENTS OF CONFIRMATION**

18 At the hearing on confirmation, the Bankruptcy Court will determine whether the  
19 provisions of Section 1129 of the Bankruptcy Code have been satisfied. If all of the provisions  
20 of Section 1129 are met, the Bankruptcy Court may enter an order confirming the Plan. The  
21 Debtor believes the Plan satisfies all of the requirements of Chapter 11 of the Bankruptcy Code,  
22 that it has complied or will have complied with all of the requirements of Chapter 11, and that it  
23 has been proposed and is made in good faith.

24 **C. FEASIBILITY**

25 Attached as Exhibit 5 is Debtor's projected income and Net Income and other  
26 distribution projections. The projections support the treatment of claims set forth in Section VI

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1 above.

2 **D. RISK FACTORS**

3 There are a number of risks associated with the Debtor's proposed Plan. Each  
4 Creditor should carefully consider those risks in evaluating its vote on the Debtor's Plan. All of  
5 the risks associated with the Debtor's Plan are too numerous to identify. However, a few of  
6 those risks are set forth below.

7 **1. GENERAL FINANCIAL MARKET CONDITIONS**

8 The recent disruption with numerous major financial institutions and the resulting  
9 crisis in the financial markets has rippled through the economy, and has impacted the  
10 condominium and residential housing market in particular. While the ultimate effect of this  
11 crisis on the residential housing market is yet unclear, it is possible that this financial market will  
12 adversely affect the ability of the Debtor to develop the Property as set forth in this Plan.

13 **2. PROJECTED FINANCIAL RESULTS**

14 The Debtor projected financial results reflect management's best estimate of the  
15 Reorganized Debtor's future financial performance based on currently known facts and  
16 hypothetical assumptions about, among other matters, the timing, confirmation and  
17 consummation of the Plan in accordance with its terms, the anticipated future performance of the  
18 Reorganized Debtor, residential housing industry performance, and general business and  
19 economic conditions. Many of these factors are beyond the control of the Reorganized Debtor.  
20 As a consequence, the actual financial results may differ significantly from the projections.  
21 Specifically, the Reorganized Debtor may not be able to meet the projected financial results or  
22 achieve the revenue or cash flow that it has assumed in projecting future business prospects.

23 **3. DEPENDENCE ON SUBCONTRACTORS**

24 The development of the Project depends on construction work done by  
25 subcontractors. The Reorganized Debtor's business model relies heavily upon maintaining its  
26 existing relationship with its core group of highly skilled and experienced subcontractors. As a

1 result, insufficient availability of, or unsatisfactory performance by these third-party  
2 subcontractors could have a material adverse affect on the Debtor's business.

3 **4. CLAIM AMOUNTS**

4 The claims estimates set forth in this Disclosure Statement are based on various  
5 assumptions. The actual Allowed Claim amounts may differ significantly from these estimates  
6 should one or more of Debtor's underlying assumptions prove to be incorrect. Such differences  
7 may materially and adversely affect the percentage recovery to holders of such Claims under the  
8 Plan.

9 **E. CRAM DOWN**

10 As discussed previously, a Court may confirm a Plan, even if it is not accepted by  
11 all impaired classes, if the Plan has been accepted by at least one impaired class of claims and  
12 the Plan meets the cram down requirements set forth in Section 1129(b) of the Bankruptcy Code.  
13 In the event that any impaired Class of Claims does not accept the Plan, the Debtor hereby  
14 requests that the Bankruptcy Court confirm the Plan in accordance with Section 1129(b) of the  
15 Bankruptcy Code or otherwise permit the Debtor to modify the Plan.

16 The Debtor believes the Plan does not violate the absolute priority rule of the  
17 Bankruptcy Code. 11 USC §1129(b)(2)(B)(ii), commonly referred to as the absolute priority  
18 rule, provides that with respect to a class of unsecured claims, the holder of any claim or interest  
19 that is junior to the claims of such class will not receive or retain under the plan on account of  
20 such junior claim or interest any property unless the plan provides that each holder of a claim  
21 receives or retains on account of such claim property of a value, as of the Effective Date of the  
22 plan, equal to the Allowed amount of such claim.

23 **F. ALTERNATIVES TO CONFIRMATION OF THE PLAN**

24 If a Plan is not confirmed, the Debtor or another party in interest may attempt to  
25 formulate or propose a different Plan or Plans of Reorganization. Such Plans might involve a  
26 reorganization and continuation of the Debtor's business, the sale of the Property or a portion

1 thereof, an orderly liquidation of the Debtor's assets or any combination thereof. If no Plan of  
2 Reorganization is determined by the Bankruptcy Court to be confirmable, the Chapter 11 case  
3 may be converted to a liquidation proceeding under Chapter 7 of the Bankruptcy Code.

4 In a liquidation, a Chapter 7 Trustee would be appointed with the purpose of  
5 liquidating the assets of the Debtor. Typically, in a liquidation, assets are sold for less than their  
6 going concern value and, accordingly, the return to Creditors and Interest holders is less than the  
7 return in a reorganization, which derives the value to be distributed in a Plan from the business as  
8 a going concern. Proceeds from liquidation would be distributed to Creditors and Interest  
9 holders of the Debtor in accordance with the priorities set forth in the Bankruptcy Code.

10 The Debtor believes that there is no currently available alternative that would  
11 offer holders of Claims and Interests in the Debtor greater than the Plan and urges all parties  
12 entitled to vote on the Plan to vote to accept the Plan.

13 **X. CONCLUSION**

14 Please read this Disclosure Statement and the Plan carefully. After reviewing all  
15 the information and making an informed decision, please vote by using the enclosed ballot.

16 Dated: June 13, 2011.

17 Respectfully submitted,

18 SALPARE BAY, LLC

19 By: ITS MANAGER, COLUMBIA RIM  
20 CORPORATION, a Washington corporation

21 By:/s/ Michael J. DeFrees  
22 Michael J. DeFrees, President

Presented by:  
FARLEIGH WADA WITT

23 By:/s/ Tara J. Schleicher  
24 Tara J. Schleicher, OSB #954021  
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Attorneys for Debtor

IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF OREGON

In re

Salpare Bay, LLC,

Debtor.

Case No. 10-35333-tmb11

DEBTOR'S THIRD AMENDED CHAPTER  
11 PLAN OF REORGANIZATION (June 13,  
2011)

## TABLE OF CONTENTS

1	<b>ARTICLE 1 DEFINITIONS .....</b>	1
2		
3		
4	<b>ARTICLE 2 UNCLASSIFIED CLAIMS.....</b>	10
5	Administrative Expense Claims.....	9
6	Priority Tax Claims.....	9
7	Bankruptcy Fees.....	9
	Professional Fees.....	11
8	<b>ARTICLE 3 CLASSIFICATION.....</b>	11
9	Class 1 – Other Priority Claims.....	11
10	Class 2 – City of Portland Secured Claim.....	11
11	Class 3 – Construction Lien Claim asserted by Dunn.....	11
12	Class 4 – Construction Lien Claim asserted by TKS .....	11
13	Class 5 – Construction Lien Claim asserted by BMI.....	11
14	Class 6 – Construction Lien Claim asserted by Myhre.....	11
15	Class 7 – County Secured Claim for Property Taxes.....	12
16	Class 8 – Small Unsecured Claims .....	12
17	Class 9 – General Unsecured Claims.....	12
18	Class 10 – Subordinated Claims.....	12
	Class 11 – Interests.....	12
19	<b>ARTICLE 4 TREATMENT OF CLASSIFIED CLAIMS AND INTERESTS .....</b>	12
20	Class 1 – Other Priority Claims.....	12
21	Class 2 – City of Portland SecuredClaim.....	12
22	Class 3 through 6 – Construction Lien Claims. ....	13
23	Class 7 – County Secured Claim for Property Taxes.....	13
24	Class 8 – Small Unsecured Claims. ....	14
25	Class 9 – General Unsecured Claims.....	14
26	Class 10 – Subordinated Claims.....	14
	Class 11 – Interests.....	14
19	<b>ARTICLE 5 DISPUTED CLAIMS; OBJECTIONS TO CLAIMS .....</b>	15
20	Disputed Claims; Objections to Claims. ....	15
21	Deficiency Claims. ....	15
22	Subsequent Allowance of Disputed Claims. ....	16
23	Form and Delivery of Distributions. ....	16
24	De-Minimis Post-Effective Payments. ....	16
25	Time Bar to Cash Payments. ....	16
26	Claimant's Change of Address.....	17
21	Post-Petition Interest. ....	17
22	Post-Confirmation Date Fees and Expenses of Professional Persons.....	17
23	<b>ARTICLE 6 MEANS FOR EXECUTION OF PLAN .....</b>	17
24	Post-Confirmation Operations.....	17
25	Refinance and Development of Property .....	18
26	Partition of Property for Financing Purposes.....	19

1	Manager.....	19
2	Setoffs.....	19
2	Utility Deposit.....	19
3	Annual Reporting .....	20
3	Management Compensation.....	20
4	Event of Default; Remedy.....	20
4	Conditions Precedent to Effectiveness of Plan .....	20
5	<b>ARTICLE 7 EXECUTORY CONTRACTS AND UNEXPIRED LEASES .....</b>	21
6	Assumption and Rejection .....	21
6	Assignment.....	22
7	Rejection Claims .....	22
7	<b>ARTICLE 8 EFFECT OF CONFIRMATION .....</b>	22
8	Debtor's Injunction .....	22
9	<b>ARTICLE 9 RETENTION OF JURISDICTION.....</b>	23
10	<b>ARTICLE 10 ADMINISTRATIVE PROVISIONS .....</b>	24
11	Modification or Withdrawal of the Plan .....	24
11	Revocation or Withdrawal of Plan .....	24
12	Right to Revoke .....	24
12	Effect of Withdrawal or Revocation.....	24
13	Nonconsensual Confirmation .....	24
13	<b>ARTICLE 11 MISCELLANEOUS PROVISIONS .....</b>	25
14	Revesting.....	25
15	Rights of Action .....	25
15	Headings.....	25
16	Notices.....	25
16	Governing Law .....	26
17	Withholding and Reporting Requirements.....	26
17	Time .....	26
18	Section 1146(c) Exemption .....	26
18	Severability.....	27
19	Binding Effect .....	27
19	Retiree Benefits .....	27
20	Recordable Order .....	27
20	Plan Controls .....	28
21	Effectuating Documents and Further Transactions .....	28
22		
23		
24		
25		
26		

1 Salpare Bay, LLC (“Debtor” or “Salpare”) proposes the following Plan of  
2 Reorganization (“Plan”) pursuant to Chapter 11 of the Code, 11 U.S.C. §§ 1101 *et seq.*

3                   This Plan provides for the repayment of the Debtor's obligations to its Creditors.

4   The Plan provides for payment to Secured Creditors in accordance with the Settlement

5   Agreement reached between the Debtor and the Secured Creditors. There are three classes of

6   unsecured creditors: Common Fund Creditors, Small Unsecured Creditors and General

7   Unsecured Creditors. The only Common Fund Creditor is Stoel Rives, LLP ("Stoel Rives"),

8   which litigated and negotiated the Federal Case that resulted in the Settlement and the

9   forgiveness of the Loan. Holders of Allowed Common Fund Claims will receive 30% of the Net

10   Income generated by the Reorganized Debtor for each calendar quarter from after October 31,

11   2012 through December 31, 2017, so long as the Debtor has amounts in excess of \$500,000 in

12   ending cash balances until the Allowed Common Fund Claim is paid in full without interest.

13   Small Unsecured Creditors will receive payment in full of their Allowed Claims on or before

14   June 30, 2013. After payment of the Common Fund Claims, General Unsecured Creditors will

15   receive quarterly pro-rata distributions from 30% of the Net Income generated by the

16   Reorganized Debtor commencing after October 31, 2012 through December 31, 2017. A

17   Disclosure Statement is enclosed herewith to assist you in understanding this Plan and making an

18   informed judgment concerning its terms.

## ARTICLE 1

## DEFINITIONS

21                   Definitions of certain terms used in this Plan are set forth below. Other terms are  
22 defined in the text of this Plan or the text of the Disclosure Statement. In either case, when a  
23 defined term is used, the first letter of each word in the defined term is capitalized. Terms used  
24 and not defined in this Plan or the Disclosure Statement shall have the meanings given in the  
25 Bankruptcy Code or Bankruptcy Rules, or otherwise as the context requires. The meanings of all  
26 terms shall be equally applicable to both the singular and plural, and masculine and feminine,

1 forms of the terms defined. The words "herein," "hereof," "hereto," "hereunder," and others of  
 2 similar import, refer to the Plan as a whole and not to any particular section, subsection or clause  
 3 contained in the Plan. Captions and headings to articles, sections and exhibits are inserted for  
 4 convenience of reference only and are not intended to be part of or to affect the interpretation of  
 5 the Plan. The rules of construction set forth in Section 102 of the Bankruptcy Code shall apply.  
 6 In computing any period of time prescribed or allowed by the Plan, the provisions of Bankruptcy  
 7 Rule 9006(a) shall apply. Any capitalized term that is not defined herein but is defined in the  
 8 Bankruptcy Code shall have the meaning ascribed to such term in the Bankruptcy Code.

9                   1.1     "Administrative Expense Claim" means any Claim entitled to the priority  
 10 afforded by Sections 503(b) and 507(a)(2) of the Bankruptcy Code.

11                   1.2     "Allowed" means, when used to modify the term Claim or Administrative  
 12 Expense Claim, either a proof of which has been properly Filed or, if no Proof of Claim was so  
 13 Filed, which was or hereafter is listed on the Schedules as liquidated in amount and not disputed  
 14 or contingent or an Administrative Expense Claim that the Debtor has received by the applicable  
 15 bar date, and, in each case, a Claim or Administrative Expense Claim as to which no objection to  
 16 the allowance thereof, or motion to estimate for purposes of allowance, shall have been Filed on  
 17 or before any applicable period of limitation that may be fixed by the Bankruptcy Code, the  
 18 Bankruptcy Rules and/or the Bankruptcy Court, or as to which any objection, or any motion to  
 19 estimate for purposes of allowance, shall have been so Filed, to the extent (a) such objection is  
 20 resolved between such Claimant and either the Debtor or the Reorganized Debtor or (b) such  
 21 claim is allowed by a Final Order.

22                   1.3     "Allowed Secured Claim" means an Allowed Claim that is secured by a  
 23 lien, security interest or other charge against or interest in property in which the Debtor has an  
 24 interest or that is subject to setoff under Section 553 of the Bankruptcy Code, to the extent of the  
 25 value (as set forth in the Plan, or if no value is specified, as determined in accordance with  
 26 Section 506(a) of the Bankruptcy Code or, if applicable, Section 1111(b) of the Bankruptcy

1 Code) of the interest of the holder of such Claim in Debtor's interest in such property or to the  
2 extent of the amount subject to setoff, as the case may be.

3                   1.4     "Allowed Unsecured Claim" means an Allowed Claim that is not an  
4 Allowed Secured Claim or an Allowed Administrative Expense Claim.

5                   1.5     "Avoidance Actions" means, without limitation, any and all actions,  
6 causes of action, liabilities, obligations, rights, suits, debts, sums of money, damages, judgments,  
7 claims and demands whatsoever, whether known or unknown, in law (including, without  
8 limitation, sections 506(c), 510, 542, 544, 547, 548, 549, 550 and 553 of the Bankruptcy Code or  
9 equivalent provisions of applicable non-bankruptcy law), equity or otherwise.

10                  1.6     "BankFirst" means BankFirst, Inc., which was placed into an FDIC  
11 receivership.

12                  1.7     "BankFirst DOT" means the deed of trust executed in favor of BankFirst  
13 and recorded against the Property on December 26, 2006 to secure a loan for the construction of  
14 Building C and infrastructure connecting the marina to Building C on the Property.

15                  1.8     "Bankruptcy Case" means the case under Chapter 11 of the Bankruptcy  
16 Code with respect to Debtor, pending in the District of Oregon, administered as *In re Salpare  
17 Bay, LLC*, Case No. 10-35333-tmb11.

18                  1.9     "Bankruptcy Code" means the Bankruptcy Reform Act of 1978, as  
19 amended from time to time, set forth in Sections 101 et seq. of Title 11 of the United States  
20 Code.

21                  1.10    "Bankruptcy Court" means the United States Bankruptcy Court for the  
22 District of Oregon, or such other court that exercises jurisdiction over the Bankruptcy Case or  
23 any proceeding therein, including the United States District Court for the District of Oregon, to  
24 the extent that the reference to the Bankruptcy Case or any proceeding therein is withdrawn.

25                  1.11    "Bankruptcy Rules" means, collectively, the Federal Rules of Bankruptcy  
26 Procedure, as amended and promulgated under Section 2075, Title 28, of the United States Code,

1 and the local rules and standing orders of the Bankruptcy Court.

2 1.12 "BMI" means Bellingham Marine Industries, Inc.

3 1.13 "Building C" means that building to be developed as part of Phase 1 of the  
4 development of the Property marked as "Building C" on the architectural drawings attached to  
5 this Plan as Exhibit 1.

6 1.14 "Business Day" means a day other than a Saturday, Sunday, any legal  
7 holiday as defined in Bankruptcy Rule 9006(a), or other day on which banks in Portland, Oregon  
8 are authorized or required by law to be closed.

9 1.15 "Cash" means lawful currency of the United States of America and  
10 equivalents, including, without limitation, checks, wire transfers and drafts.

11 1.16 "Claim" means (a) any right to payment from Debtor arising before the  
12 Effective Date, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed,  
13 contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured; or  
14 (b) any right to an equitable remedy against Debtor arising before the Effective Date for breach  
15 of performance if such breach gives rise to a right of payment from Debtor, whether or not such  
16 right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured,  
17 disputed, undisputed, secured or unsecured.

18 1.17 "Claimant" means and refers to the holder of a Claim.

19 1.18 "Class" means one of the classes of Claims defined in Article 3 hereof.

20 1.19 "Collateral" means any property in which Debtor has an interest that is  
21 subject to a lien or security interest securing the payment of an Allowed Secured Claim.

22 1.20 "Common Fund Claims" means that claim asserted by Stoel Rives, which  
23 litigated and negotiated the Federal Case that resulted in the Settlement and the forgiveness of  
24 the Loan.

25 1.21 "Confirmation Date" means the date on which the Confirmation Order is  
26 entered on the docket by the Clerk of the Bankruptcy Court.

1                   1.22    “Confirmation Order” means the order of the Bankruptcy Court  
2 confirming the Plan in accordance with the provisions of Chapter 11 of the Bankruptcy Code.

3                   1.23    “Construction Creditors” means Dunn, TKS, BMI and Myhre.

4                   1.24    “Construction Lien Claims” means those Claims asserted by Creditors to  
5 be claims secured by a statutory lien under Oregon construction lien laws on the Debtor’s  
6 Property, in each case, to the extent such Claim is valid and enforceable under applicable law  
7 and subject to the Settlement Agreement.

8                   1.25    “Creditor” means any entity holding a Claim against the Debtor.

9                   1.26    “CR Corp.” means Columbia Rim Corporation, Salpare’s manager.

10                  1.27    “Debtor” means Salpare Bay, LLC as Debtor and Debtor-in-Possession in  
11 the Bankruptcy Case.

12                  1.28    “Deficiency Claim” means the portion of a Secured claim that is  
13 unsecured.

14                  1.29    “DeFrees” means Michael DeFrees, the sole member of Salpare and the  
15 President and 50% shareholder of CR Corp.

16                  1.30    “Disclosure Statement” means Debtor’s Disclosure Statement as amended,  
17 modified, restated or supplemented from time to time, pertaining to the Plan.

18                  1.31    “Discounted Judgment Amount” means 88.26% of the Judgment Amount.

19                  1.32    “Disputed Claim” means a Claim with respect to which a Proof of Claim  
20 has been timely Filed or deemed timely Filed under applicable law, and as to which an objection,  
21 timely Filed, has not been withdrawn on or before the Effective Date or any date fixed for filing  
22 such objections by order of the Bankruptcy Court, and has not been denied by a Final Order and  
23 which Claim has not been estimated or temporarily allowed by the Bankruptcy Court on timely  
24 motion by the holder of such Claim. If an objection related to the allowance of only a part of a  
25 Claim has been timely Filed or deemed timely Filed, such Claim shall be a Disputed Claim only  
26 to the extent of the objection.

1                   1.33    “Dunn” means J.E. Dunn Northwest, Inc.

2                   1.34    “Dunn Action” means the lawsuit Dunn commenced against Salpare and  
3 other entitled *J.E. Dunn Northwest, Inc. v. Salpare Bay, LLC, et. al.*, Multnomah County Circuit  
4 Court Case No. 0710-12536.

5                   1.35    “Dunn Adversary Proceeding” means the adversary proceeding currently  
6 pending before the Bankruptcy Court entitled *Salpare Bay, LLC v. J.E. Dunn Northwest, Inc., et.*  
7 *al.*, Case No. 10-03264-tmb.

8                   1.36    “East Building” means that building to be developed as part of Phase 1 of  
9 the development of the property marked as the “East Building” on the architectural drawing  
10 attached to this Plan as Exhibit 1.

11                  1.37    “Effective Date” means \_\_\_\_\_ or the 10th day following entry  
12 of the Confirmation Order, whichever is later.

13                  1.38    “Entity” shall have the meaning ascribed to it by Section 101(15) of the  
14 Bankruptcy Code.

15                  1.39    “FDIC” means the Federal Deposit Insurance Corporation.

16                  1.40    “Federal Case” means United States District Court for the District of  
17 Oregon case number 10-373-PK in which BankFirst’s and the Salpare Parties’ claims in the  
18 Dunn Action were removed to federal court and in which the Salpare Parties asserted various  
19 lender liability claims against the FDIC, BankFirst and its participant lenders on the Loan.

20                  1.41    “FHA Lender” means the lender who has issued a term sheet to the Debtor  
21 for an FHA 221(d)(4) of the National Housing Act loan to develop Phase 1 of the Property.

22                  1.42    “Filed” means filed with the Bankruptcy Court in the Bankruptcy Case.

23                  1.43    “Final Order” means an order or judgment entered on the docket by the  
24 Clerk of the Bankruptcy Court or any other court exercising jurisdiction over the subject matter  
25 and the parties that has not been reversed, stayed, modified or amended and as to which the time  
26 for filing a notice of appeal, or petition for certiorari or request for certiorari, or request for

1 rehearing shall have expired.

2                   1.44    “Gateway” means Gateway National Corporation, the entity that provides  
3 employee services to Salpare and in which DeFrees is an owner.

4                   1.45    “General Unsecured Claim” means an Unsecured Claim that is not a Small  
5 Unsecured Claim.

6                   1.46    “Harbor” means Harbor Investors, LLC.

7                   1.47    “Harbor Adversary Proceeding” means that adversary proceeding pending  
8 before the Bankruptcy Court entitled *Salpare Bay, LLC v. Harbor Investors, LLC*, Case No. 10-  
9 03252-tmb.

10                  1.48    “Improvements” means the improvements that existed as of the Petition  
11 Date relating to Building C to which the Construction Liens Claims relate.

12                  1.49    “Insider” shall have the meaning ascribed to it by Section 101(31) of the  
13 Bankruptcy Code.

14                  1.50    “Interests” means all rights of the owner(s) including the issued and  
15 outstanding membership interests in the Debtor.

16                  1.51    “Judgment Amount” means that amount asserted by the Construction  
17 Creditors and the City of Portland as the amount owed to them under the judgment entered in the  
18 Dunn Action inclusive of principal, fees, costs and interest as of March 31, 2011, as set forth on  
19 Exhibit A to the Settlement Agreement.

20                  1.52    “Land” means the land which makes up the Property.

21                  1.53    “Loan” means the \$63 million in construction financing promised by  
22 BankFirst and its 41 participating lenders to Salpare for the Project.

23                  1.54    “Marina” means the 204-slip marina, including amenities and facilities, on  
24 the Property.

25                  1.55    “Myhre” means Myhre Group Architects, Inc.

26                  1.56    “Net Income” means net gross revenues less total expenses (including

1 operating expenses, taxes and interest) but excluding depreciation, generated by the Reorganized  
2 Debtor that may be available to pay to General Unsecured Creditors on Allowed Unsecured  
3 Claims as set forth in this Plan, if any, but only to the extent that such payments would not cause  
4 the Debtor to default under any obligations it has to its lender(s) under applicable loan  
5 documents.

6 1.57 "Other Priority Claim" means any Claim for an amount entitled to priority  
7 in right of payment under Section 507(a)(3), (4), (5) (6) or (7) of the Bankruptcy Code.

8 1.58 "Petition Date" means June 7, 2010, the date on which the petition  
9 commencing this Bankruptcy Case was Filed.

10 1.59 "Phase 1" means the development of approximately 166 residential  
11 apartment units and ancillary improvements where Building C currently sits on the Property, as  
12 indicated on the architectural drawings attached as Exhibit 1 to this Plan.

13 1.60 "Phase 2" means the development of the remainder of the planned  
14 approximate 371 multi-family residential units as indicated on the architectural drawings  
15 attached as Exhibit 1 to this Plan.

16 1.61 "Plan" means this Plan of Reorganization, as amended, modified, restated  
17 or supplemented from time to time.

18 1.62 "Priming Loan" means a loan to the Debtor with a maximum amount of  
19 \$500,000 for which the lender will be granted a trust deed on the Property to secure the loan to  
20 which the Construction Creditors will subordinate their liens on the Property. The loan will be  
21 used to pay for site work related to the parking improvements, permit applications, professional  
22 fees including but not limited to this bankruptcy case, partitioning the Property, loan costs and  
23 fees for the FHA or conventional loan required to make payments to the Construction Creditors.  
24 The loan may be increased by \$250,000 upon consent of the Construction Creditors, upon receipt  
25 of a fully-executed commitment letter from a bank or other financial institution, subject to due  
26 diligence by the Construction Creditors as set forth in the Settlement Agreement.

1                   1.63    “Priority Tax Claim” means a Claim of a governmental unit of the kind  
2   entitled to priority under Section 507(a)(8) of the Bankruptcy Code or that would otherwise be  
3   entitled to priority but for the secured status of the Claim.

4                   1.64    “Pro Rata” means a proportionate share, so that the ratio of (a) the amount  
5   of property distributed on account of any Allowed Claim, or retained on account of a Disputed  
6   Claim, in a Class, to (b) the amount distributed on account of all Allowed Claims, or allocated to  
7   on account of all disputed claims, in such Class, is the same as the ratio (x) such claim bears to  
8   (y) the total amount of all claims (including Disputed Claims in their respective Disputed claim  
9   Amounts) in such Class.

10                  1.65    “Professional Fees” means compensation to be paid to Professional  
11 Persons retained by the Debtor pursuant to an order of the Bankruptcy Court entered under  
12 Section 327, 328, 330, 331, 503(b) or 1103 of the Bankruptcy Code.

13                  1.66    “Professional Persons” means and refers to all attorneys, accountants,  
14 financial advisors, investment bankers, appraisers, consultants and other professionals retained or  
15 to be compensated pursuant to an order of the Bankruptcy Court entered under Section 327, 328,  
16 330, 331, 503(b) or 1103 of the Bankruptcy Code.

17                  1.67    “Project” means the development and construction of improvements for  
18 multi-family residential living to the Property.

19                  1.68    “Property” means the real property located at 499 N.E. Tomahawk Drive,  
20 and 11505 N. Yacht Harbor Drive, Portland, Oregon.

21                  1.69    “Rejection Claim” means a Claim entitled to be filed as a result of a  
22 Debtor rejecting an executory contract in these Bankruptcy Cases

23                  1.70    “Reorganized Debtor” means Debtor from and after the Effective Date.

24                  1.71    “Salpare” means Salpare Bay, LLC.

25                  1.72    “Salpare Parties” means Salpare, Harbor, DeFrees, Columbia Rim  
26 Construction, Inc. and CR Corp.

1                           1.73    “Schedules” means the Schedules of Assets and Liabilities and the  
2 Statement of Financial Affairs Filed by Debtor pursuant to Section 521 of the Bankruptcy Code,  
3 as amended, modified, restated or supplemented from time to time.

4                           1.74    “Scheduled Amounts” means the Claim amounts as set forth in Debtor’s  
5    respective Bankruptcy Schedules.

6                   1.75    “Secured Claim” means any Claim against Debtor held by any entity,  
7 including, without limitation, an affiliate or judgment creditor of Debtor, to the extent such  
8 Claim constitutes a secured Claim under Sections 506(a) or 1111(b) of the Bankruptcy Code.  
9   The unsecured portion, if any, of such Claim shall be treated as an Unsecured Claim.

13                           1.77    “Small Unsecured Claims” means Unsecured Claims that are equal to or  
14    less than \$2,000, or Claimants electing to reduce their Unsecured Claim to \$2,000.

15                           1.78    “Subordinated Claim” means any Claim: (a) subordinated for purposes of  
16 distribution pursuant to section 510(c) of the Bankruptcy Code, (b) for any fine, penalty or  
17 forfeiture, or for multiple, exemplary or punitive damages, to the extent that such Claims are not  
18 compensation for actual pecuniary loss, and (c) the Allowed Unsecured Claim of DeFrees.

19 1.79 “TKS” means ThyssenKrupp Safway, Inc.

20                           1.80    “Unsecured Claim” means a Claim that is not an Administrative Claim, a  
21   Secured Claim, a Tax Claim, an Other Priority Claim or an Intercompany Claim.

22                           1.81    “Utility Deposits” means deposits with utilities made by Debtor after the  
23 Petition Date pursuant to Section 366(b) of the Bankruptcy Code.

## ARTICLE 2

## UNCLASSIFIED CLAIMS

26 2.1 Administrative Expense Claims. Each holder of an Allowed

1 Administrative Expense Claim shall be paid by Debtor in full in Cash on the later of (a) the  
 2 Effective Date or (b) the date on which such Claim becomes Allowed, unless such holder shall  
 3 agree to a different treatment of such Claim (including, without limitation, any different  
 4 treatment that may be provided for in any documentation, statute or regulation governing such  
 5 Claim); provided, however, that Administrative Expense Claims representing obligations  
 6 incurred in the ordinary course of business by Debtor during the Bankruptcy Case shall be paid  
 7 by Debtor or Reorganized Debtor in the ordinary course of business and in accordance with any  
 8 terms and conditions of the particular transaction, and any agreements relating thereto.

9                   2.2    Priority Tax Claims. The only Priority Tax Claim is that of Multnomah  
 10 County for real property taxes. The holder of an Allowed Priority Tax Claim shall retain its lien  
 11 against the Property with the same priority to which it is entitled by law. The Priority tax lien  
 12 shall be released from each phase of the Property as the lender's requirement for the Property to  
 13 be free and clear of encumbrances to close the loans. The holder of an Allowed Priority Tax  
 14 Claim shall paid in full the amount of its Secured Claim as permitted by 11 USC § 1129(a)(9)(C)  
 15 and (D) in installment payments commencing October 31, 2012, but not later than five (5) years  
 16 after the Petition Date in equal payments of principal and interest at the non-default rate  
 17 determined under applicable non-bankruptcy law or, if there is no such defined rate, then at a rate  
 18 equal to the prime rate plus 1% fixed as of the Confirmation Date, or such other rate as  
 19 determined by the Bankruptcy Court, or the date the claim is Allowed.

20                   2.3    Bankruptcy Fees. Fees payable by Debtor under 28 USC § 1930, or to the  
 21 Clerk of the Bankruptcy Court, will be paid in full in Cash on the Effective Date. After  
 22 confirmation, Reorganized Debtor shall continue to pay quarterly fees to the Office of the United  
 23 States Trustee and to file quarterly reports with the Office of the United States Trustee until this  
 24 case is closed by the Court, dismissed or converted except as otherwise ordered by the Court.  
 25 This requirement is subject to any amendments to 28 USC § 1930(a)(6) that Congress makes  
 26 retroactively applicable to confirmed Chapter 11 cases.

1                   2.4    Professional Fees.   Professional Fees will be paid when Allowed as  
2    Administrative Expense Claims within fifteen (15) days after entry of a final Order approving the  
3    amount of the fees, or otherwise as the holder of an Administrative Expense Claim for  
4    Professional Fees may agree in writing.

## ARTICLE 3

## CLASSIFICATION

7                           3.1    Class 1 – Other Priority Claims. Class 1 consists of all Allowed Other  
8   Priority Claims.

9                           3.2     Class 2 – City of Portland Secured Claim. Class 2 consists of the Claim  
10 asserted by the City of Portland as a Secured Claim.

11                           3.3     Class 3 – Construction Lien Claim asserted by Dunn. Class 3 consists of  
12     the Construction Lien Claim asserted by Dunn, which allowance is subject to the Settlement  
13     Agreement.

14                           3.4     Class 4 – Construction Lien Claim asserted by TKS. Class 4 consists of  
15     the Construction Lien Claim asserted by TKS, which allowance is subject to the Settlement  
16     Agreement.

17                   3.5    Class 5 – Construction Lien Claim asserted by BMI. Class 5 consists of  
18   the Construction Lien Claim asserted by BMI, which allowance is subject to the Settlement  
19   Agreement.

20                           3.6    Class 6 – Construction Lien Claim asserted by Myhre. Class 6 consists of  
21 the Construction Lien Claim asserted by Myhre, which allowance is subject to the Settlement  
22 Agreement.

23                   3.7    Class 7 – County Secured Claim for Property Taxes. Class 7 consists of  
24 Multnomah County's Secured Claim for property taxes.

25                           3.8    Class 8 – Small Unsecured Claims. Class 8 consists of all Allowed Small  
26    Unsecured Claims.

1                   3.9     Class 9 – Common Fund Claim. Class 9 consists of the claim of Stoel  
2 Rives for the attorney fees incurred in pursuit of the lender liability claims against Bank First and  
3 the FDIC that resulted in the FDIC for BankFirst agreeing not to seek payment on the Loan,  
4 which created a common fund for the benefit of all general unsecured creditors.

5                   3.10    Class 10 -- General Unsecured Claims. Class 10 consists of all Allowed  
6 General Unsecured Claims not otherwise classified and treated under the Plan.

7                   3.11    Class 11 – Subordinated Claims. Class 11 consists of all Allowed  
8 Subordinated Claims.

9                   3.12    Class 12 – Interests. Class 12 consists of the Interests.

## ARTICLE 4

### TREATMENT OF CLASSIFIED CLAIMS AND INTERESTS

12                  4.1     Class 1 – Other Priority Claims. Class 1 is unimpaired. Each holder of an  
13 Allowed Class 1 Claim will be paid in full in Cash the amount of its Allowed Class 1 Claim,  
14 including all interest, costs, fees and charges provided for under any agreement under which such  
15 Claim arose or is otherwise allowed by law, on the latter of (a) the Effective Date or (b) the date  
16 on which such Claim becomes Allowed, unless such holder shall agree or has Agreed to a  
17 different treatment of such Claim (including any different treatment that may be provided for in  
18 any documentation, agreement, contract, statute, law or regulation creating and governing such  
19 Claim). The Debtor is not aware of the existence of any Other Priority Claims.

20                  4.2     Class 2 – City of Portland Secured Claim. Class 2 consists of the Claim  
21 asserted by the City of Portland under ORS 223, the city charter of Portland, the Portland City  
22 Code and as set forth in the Dunn Action judgment, in the amount of \$152,028.81 as a Secured  
23 Claim. The holder of an Allowed Secured Class 2 Claim will be paid as set forth in the  
24 Settlement Agreement its share of the Discounted Judgment Amount as follows: 40% on or  
25 before June 30, 2012; 40% on or before October 31, 2012; the remaining 20% on or before June  
26 30, 2013.

1           Class 3 through 6 – Construction Lien Claims. Classes 3 through 6 are impaired and  
 2 consist of Claims asserted by: Dunn (Class 3), TKS (Class 4), BMI (Class 5) and Myhre (Class  
 3 6). Each Creditor holding a Class 3, 4, 5 or 6 Allowed Claim secured by a perfected construction  
 4 lien will retain its lien with the same priority such lien had on the Petition Date, except as set  
 5 forth herein at Section 6.3 of the Plan. The Allowed Claims in Classes 3, 4, 5 and 6 will be paid  
 6 the Discounted Judgment Amount, together with interest accruing from and after the Effective  
 7 Date at the rate of 3.25% per annum from the proceeds of the financing of the Property,  
 8 consistent with the terms of the Settlement Agreement. The first payment to Classes 3, 4, 5 and  
 9 6 of 40% of the Discounted Judgment Amount will occur on the closing of the loan Debtor will  
 10 obtain to develop Phase 1 or June 30, 2012, as set forth in the Settlement Agreement. On or  
 11 before October 31 2012, the Debtor anticipates refinancing the Marina and will pay 40% of the  
 12 Discounted Judgment Amount to Classes 3, 4, 5 and 6 as set forth in the Settlement Agreement.  
 13 The Debtor intends to obtain financing to develop Phase 2 on or before June 30, 2013 and will  
 14 pay the balance of the Discounted Judgment Amount to Classes 3, 4, 5 and 6 as set forth in the  
 15 Settlement Agreement. Debtor shall deliver a Bargain and Sale Deed to the Property (the  
 16 “Deed”) (free and clear of all liens), except those permitted under this Plan and the Settlement  
 17 Agreement, conveying the Property to Dunn to Judge Hogan to be held in trust for the benefit of  
 18 the Construction Creditors within five (5) business days of the Effective Date. After each  
 19 payment referenced herein, Debtor shall immediately deliver to Judge Hogan a new deed for the  
 20 portion(s) of the Property that remain as collateral for Debtor’s payment obligations to the  
 21 Construction Creditors.

22           4.3    Class 7 – County Secured Claim for Property Taxes. Class 7 is  
 23 unimpaired. The holder of the Class 7 Claim will retain its security interest with the same  
 24 priority to which it is entitled by law. The Allowed Class 7 Claimant shall be paid the full  
 25 amount of its Secured Claim as permitted by 11 USC §1129(a)(9)(D) in full from financing of  
 26 the Property or Net Income, but not later than five (5) years after the Petition Date.

1                   4.4     Class 8 – Small Unsecured Claims. Class 8 is impaired. Each holder of a  
 2 Class 8 Claim will be paid in Cash an amount equal to 25% of their Allowed Claim on or before  
 3 October 31, 2012, or 30 days from the date their Claim becomes an Allowed Claim, whichever is  
 4 later. Thereafter, each holder of a Class 8 Claim will be paid in Cash an amount equal to 75% of  
 5 their Allowed Claim on or before June 30, 2013. The total costs of payment to current Small  
 6 Unsecured Creditors will be approximately \$31,000.

7                   4.5     Class 9 – Common Fund Claim. Class 9 is impaired. Class 9 consists  
 8 solely of the claim of Stoel Rives. The holder of an Allowed Class 9 Claim shall be paid by  
 9 receiving 30% of Net Income generated by the Reorganized Debtor for each calendar quarter  
 10 beginning as early as the quarter ending December 31, 2012 through December 31, 2017, with  
 11 payments to be made on or before the last Business Day of the month following the end of each  
 12 calendar quarter, but only so long as the Debtor has ending cash balances in excess of \$500,000  
 13 and to the extent it does not cause the Debtor to default under its loan documents, until the  
 14 Allowed Class 9 claim is paid in full without interest. Should the Court determine that Stoel  
 15 Rives' Claim should not be classified separately from the Class 10 General Unsecured Claims,  
 16 then Stoel Rives' Claim shall be treated as a Class 10 General Unsecured Claim.

17                  4.6     Class 10 – General Unsecured Claims. Class 10 is impaired. After  
 18 payment of the Class 9 Allowed Claim, each holder of a Class 10 Allowed Claim shall be paid  
 19 by receiving a Pro Rata share of 30% of the Net Income generated by the Reorganized Debtor  
 20 for each calendar quarter commencing as early as the quarter ending December 31, 2012 through  
 21 the quarter ending December 31, 2017, so long as the Debtor has amounts in excess of \$500,000  
 22 in ending cash balances and to the extent it does not cause the Debtor to default under its loan  
 23 documents. In no event shall Class 10 Allowed Claims receive less than a Pro Rata distribution  
 24 equal to 10% of each Class 10 Allowed Claim amount. General Unsecured Claims total  
 25 approximately \$1.7 million, plus approximately \$10.9 million to General Unsecured Claims  
 26 owing to DeFrees, plus any Deficiency Claims of Secured Claims. DeFrees has agreed to

1 subordinate payments to him on his General Unsecured Claim and he will be treated as a Class  
2 11 Claimant. Should the Court determine that Stoel Rives' Claim should not be classified  
3 separately from the Class 10 General Unsecured Claims, then Stoel Rives' Claim shall be treated  
4 as a Class 10 General Unsecured Claim.

5                   4.7    Class 11 – Subordinated Claims. Class 11 is impaired. Holders of  
6 subordinated claims will be paid a Pro Rata share of all remaining Unsecured proceeds after  
7 Holders of Allowed Class 9 and 10 Claims have been paid in full.

8                   4.8     Class 12 – Interests. Class 12 is impaired. The holder of the Class 12  
9     Claims is the holders of all equity interests in the Debtor. As a result of the Settlement  
10    Agreement, the owners of Harbor will transfer their membership interests in Harbor to Salpare.  
11    These interests will be cancelled. All remaining equity interests will be retained by Mr. DeFrees  
12    in exchange for the subordination of his \$10.9 million General Unsecured Claim,

## ARTICLE 5

## **DISPUTED CLAIMS; OBJECTIONS TO CLAIMS**

15                   5.1     Disputed Claims; Objections to Claims. Only Claims that are Allowed  
16 shall be entitled to distributions under the Plan. Debtor reserves the right to contest and object to  
17 any Claims and previously Scheduled Amounts, including, without limitation, those Claims and  
18 Scheduled Amounts that are specifically referenced herein, are not listed in the Schedules, are  
19 listed therein as disputed, contingent and/or unliquidated in amount, or are listed therein at a  
20 different amount than the Debtor currently believes is validly due and owing. Unless otherwise  
21 ordered by the Bankruptcy Court, all objections to Claims and Scheduled Amounts (other than  
22 Administrative Expense Claims) shall be Filed and served upon counsel for Debtor and the  
23 holder of the Claim objected to on or before the later of (a) forty-five (45) days after the  
24 Effective Date or (b) sixty (60) days after the date (if any) on which a Proof of Claim is Filed in  
25 respect of a Rejection Claim or Deficiency Claim. The last day for filing objections to  
26 Administrative Expense Claims shall be set pursuant to a further order of the Bankruptcy Court.

1 All Disputed Claims shall be resolved by the Bankruptcy Court, except to the extent that (a)  
2 Debtor may otherwise elect consistent with the Plan and the Bankruptcy Code or (b) the  
3 Bankruptcy Court may otherwise order. No Cash or other property shall be distributed under the  
4 Plan on account of any Disputed Claim, or a portion of any such Claim, unless and until such  
5 Disputed Claim becomes an Allowed Claim.

6                   5.2     Deficiency Claims. On or before fifteen (15) days after the entry of the  
7 Confirmation Order unless otherwise provided for under the Plan, any party holding an alleged  
8 Secured Claim in Classes 3 through 6 under the Plan will file and serve the Reorganized Debtor  
9 with a proof of claim asserting the amount that their Claim is an Unsecured Claim. Creditors  
10 who fail to file a proof of claim by the date established in this Section 5.2 shall be forever barred  
11 and estopped from asserting an Unsecured Claim and from receiving distributions as a Class 8 or  
12 9 Claimant.

13                   5.3     Subsequent Allowance of Disputed Claims. The holder of a Disputed  
14 Claim that becomes Allowed in full or in part subsequent to the Effective Date shall receive Cash  
15 distributions on the next distribution date applicable to its Class of Claim following the  
16 allowance of such Disputed Claim.

17                   5.4     Form and Delivery of Distributions. Distributions to be made by the  
18 Reorganized Debtor under the Plan will ordinarily be made by check drawn on a domestic bank.  
19 Distributions to be made by the Reorganized Debtor to holders of Allowed Claims pursuant to  
20 the Plan may be delivered by regular mail, postage prepaid, in an envelope addressed as directed  
21 in a request served on the Reorganized Debtor as providing in Section 11.4 of this Plan, but if no  
22 such request is made, to the address shown in the Schedules, or, if a different address is stated in  
23 a proof of claim duly filed with the Bankruptcy Court, to such address.

24                   5.5     De-Minimis Post-Effective Payments. If a Cash payment to be made to a  
25 holder of an Allowed Claim after the Effective Date, other than to the holder of a Small  
26 Unsecured Claim, would be \$20 or less in the aggregate, no such payment will be made to the

1 holder of such Claim, unless and until the aggregate distribution on account of such Claim would  
2 be at least \$20 at a subsequent distribution date.

3               5.6     Time Bar to Cash Payments. Checks issued by the Reorganized Debtor  
4 with respect to Allowed Claims will become null and void if not negotiated within 90 days after  
5 the date of issuance thereof. Requests for re-issuance of any check must be made to the  
6 Reorganized Debtor within 90 days following the date of the Plan distribution pursuant to which  
7 the check was issued. After such date, (i) the holder of any such Claim who has failed to make a  
8 timely request for re-issuance of such a voided check will not be entitled to any other or further  
9 distribution under the Plan on account of such voided check or such Claim; and (ii) the  
10 Unclaimed Property held on account of such voided check or such Claim shall be returned to the  
11 Reorganized Debtor.

12               5.7     Claimant's Change of Address. Any Claimant who fails to notify in  
13 writing of that Claimant's change of address, with the result that the Reorganized Debtor's  
14 communications to the Claimant are returned by the United States Postal Service for insufficient  
15 or improper address, shall forfeit that Claimant's rights to distributions made during the time of  
16 such failure, but will be entitled to amounts to be distributed after notifying the Reorganized  
17 Debtor of the new or corrected address. The Reorganized Debtor need not distribute property  
18 unclaimed within three (3) months of the final distribution.

19               5.8     Post-Petition Interest. Except as specifically provided for in the Plan or in  
20 the Confirmation Order, interest will not accrue on Claims, either Allowed Claims or Disputed  
21 Claims, and no holder of a Claim will be entitled to interest accruing on or after the Petition Date  
22 on any Claim.

23               5.9     Post-Confirmation Date Fees and Expenses of Professional Persons. After  
24 the Confirmation Date, the Reorganized Debtor shall, in the ordinary course of business and  
25 without the necessity for Bankruptcy Court approval, pay the reasonable fees and expenses of the  
26 Professional Persons or entities it employs in connection with the implementation,

1 consummation and performance of the Plan or with other matters as to which such Professional  
 2 Persons may be reasonably engaged. Notwithstanding the foregoing, no Post-Confirmation Date  
 3 fees and expenses shall be paid unless and until (i) all Allowed Administrative Expense Claims  
 4 have been paid in full, and (ii) there is sufficient Net Income.

5 **ARTICLE 6**

6 **MEANS FOR EXECUTION OF PLAN**

7         6.1     Post-Confirmation Operations. After the Effective Date, the Reorganized  
 8 Debtor shall operate its business subject to its obligations under this Plan, with all corporate  
 9 powers allocated under applicable state law, without prejudice to any right to alter or terminate  
 10 such existence (whether by merger or otherwise) under such applicable law. Except as expressly  
 11 provided in this Plan, on the Effective Date the Reorganized Debtor will be vested with all of the  
 12 property of its estate free and clear of all claims, liens, encumbrances, charges and other interests  
 13 of Claimants, and may operate its business free of any restrictions imposed by the Code or by the  
 14 Bankruptcy Court.

15         6.2     Refinance and Development of Property. The Debtor will obtain either  
 16 FHA loans or conventional loans to develop the Property and will pay creditors from a  
 17 combination of loan proceeds and operating income.

18                 Initially, the Debtor will obtain a Priming Loan to make parking lot  
 19 improvements, to make permit-related payments, to pay professional fees associated with the  
 20 bankruptcy case, partition of the Property, loan costs and fees and other site and surveying work.  
 21 The general terms of the Priming Loan include: (i) \$500,000, with the possibility of obtaining an  
 22 additional \$250,000 upon receipt of a fully-executed commitment letter from a bank or other  
 23 financial institution agreement to loan Salpare the funds necessary for the development of  
 24 Phase1; (ii) Wall Street prime rate plus 10% floating daily; (iii) \$250,000 to be paid to the  
 25 Priming Loan lender on or before June 30, 2012 as set forth in the Settlement Agreement; (iv)  
 26 \$8,000 application fee; (v) loan fee of 5% upon loan closing; (vi) secured by a first trust deed on

1 the Property; and (vii) release of trust deed by Priming Loan lender on Phase 1 at closing of  
 2 Phase 1 FHA Loan. Pursuant to the Settlement Agreement, the Construction Creditors shall  
 3 subordinate their liens to the trust deed of the Priming Loan lender.

4 As discussed previously, an FHA Lender has issued a term sheet to the Debtor for  
 5 an FHA 221(d)(4) loan for Phase 1 of the construction on the Property on or before June 30,  
 6 2012 in the approximate amount of \$20 million and pay the Discounted Judgment Amount to the  
 7 Class 2, 3, 4, 5 and 6 Secured Creditors on their claims in three payments on June 30, 2012,  
 8 October 31, 2012 and June 30, 2013. The Debtor will obtain the loan to commence construction  
 9 of Phase 1 in approximately June of 2012 with funding provided by the FHA Lender. By  
 10 October 31, 2012, the Debtor will refinance the Marina and make the second installment  
 11 payment to the Secured Creditors as well as the first payment to Multnomah County, the first  
 12 payment to General Unsecured Creditors and the final payment to the Small Unsecured  
 13 Creditors. The Debtor intends to obtain financing for Phase 2 of the construction on the Property  
 14 in approximately June of 2013, at which time the Debtor will pay the Secured Creditors their  
 15 final payment pursuant to the Settlement Agreement. The Debtor plans to pay Small Unsecured  
 16 Creditors and General Unsecured Creditors from Net Income.

17 The Debtor proposes to implement this Plan as set forth in the Plan projections  
 18 attached to the Disclosure Statement as Exhibit 5.

19 6.3 Partition of Property for Financing Purposes. The Debtor may partition  
 20 the Property into three portions: (1) the Marina; (2) Phase 1; and (3) Phase 2. The partition will  
 21 allow the Debtor to provide a first lien to the lender on the FHA or conventional loans on Phase  
 22 1 of the Property, and ultimately on the Marina and Phase 2 as well. After the initial payment to  
 23 Classes 3, 4, 5 and 6 Construction Lien Claims, such Claimants shall retain whatever lien rights  
 24 they have on the Marina and Phase 2 of the Property with the same priority such liens had on the  
 25 Petition Date,

26 6.4 Manager. Upon the occurrence of the Effective Date, the manager of the

1 Reorganized Debtor shall be Columbia Rim Corporation.

2                   6.5     Setoffs. The Debtor may, but shall not be required to, set off against any  
3 Claim and the distributions to be made pursuant to the Plan in respect of such Claim, any claims  
4 of any nature whatsoever which Debtor may have against the holder of such Claim, but neither  
5 the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release  
6 of any such claim Debtor may have against such holder.

7                   6.6     Utility Deposit. All utilities holding a Utility Deposit shall immediately  
8 after the Effective Date return or refund such Utility Deposit to Reorganized Debtor. At the sole  
9 option of Reorganized Debtor, Reorganized Debtor may apply any Utility Deposit that has not  
10 been refunded to Reorganized Debtor in satisfaction of any payments due or to become due from  
11 Reorganized Debtor to a utility holding such a Utility Deposit.

12                  6.7     Annual Reporting. During the term the Reorganized Debtor has an  
13 obligation to make distributions to General Unsecured Creditors, it will prepare an annual report  
14 by forty-five (45) days after the close of each preceding calendar year detailing its financial  
15 performance, and will make such report available to all holders of Allowed Claims requesting a  
16 copy. Such reports shall include variances from Reorganized Debtor's budget for the preceding  
17 period and for each reporting period: the status of Avoidance Actions; gross revenue; Net  
18 Income, including each component made up in such calculation; extraordinary expenses; and any  
19 other information considered pertinent by Reorganized Debtor.

20                  6.8     Management Compensation. Mr. DeFrees shall continue as President of  
21 the Manager of the Reorganized Debtor. The Reorganized Debtor shall pay \$5,000 per month in  
22 a management fee to Gateway for services to be provided by Mr. DeFrees and others.

23                  6.9     Event of Default; Remedy. Any material failure by Reorganized Debtor to  
24 perform any term of this Plan, which failure continues for a period of thirty (30) days following  
25 receipt by Reorganized Debtor of written notice of such default from the holder of an Allowed  
26 Claim to whom performance is due, shall constitute an event of Default. Upon the occurrence of

1 an Event of Default, the holder of an Allowed Claim to whom performance is due shall have all  
2 rights and remedies granted by law, this Plan or any agreement between the holder of such Claim  
3 and Debtor or Reorganized Debtor. An Event of Default with respect to one Claim shall not be  
4 an Event of Default with respect to any other Claim.

5                   6.10 Conditions Precedent to Effectiveness of Plan. The following conditions  
6 must occur and be satisfied for the Plan to become effective, notwithstanding the Effective Date:

7                   (a) The Bankruptcy Court shall have entered the Confirmation Order, in  
8 the form and substance reasonably satisfactory to the Debtor, which shall, among other things, (i)  
9 find that the Plan complies with all applicable requirements of the Bankruptcy Code, (ii) decree  
10 that the Confirmation Order shall supersede any court orders issued prior to the Confirmation  
11 Date that may be inconsistent therewith, (iii) decree that, except as otherwise provided in the  
12 Plan or Confirmation Order, all transfers of property contemplated under the Plan shall be free  
13 and clear of all claims, security interests, liens, encumbrances, and other interests of holders of  
14 Claims and equity interest; (iv) provide that any and all executory contracts and unexpired leases  
15 that are assumed and/or assigned pursuant to the Plan shall remain in full force and effect for the  
16 benefit of the Reorganized Debtor, in each case, notwithstanding any provision in any such  
17 contract or lease or in applicable law (including those described in Sections 365(b)(2) and (f) of  
18 the Bankruptcy Code) that prohibits, restricts or conditions such transfer or that enables or  
19 requires termination or modification of such contract or lease; and (v) appropriate notice and  
20 opportunity for hearing has been given and the injunctions set forth in Section 8 of the Plan shall  
21 be valid, binding and fully enforceable in any court of law.

22                   (b) All documents, instruments and agreements, each in form and  
23 substance satisfactory to the Debtor, provided for or necessary to implement this Plan shall have  
24 been executed and delivered by the parties thereto, unless such execution or delivery has been  
25 waived by the party to be benefited thereby.

26

## ARTICLE 7

## **EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

3                   7.1     Assumption and Rejection. Except as may otherwise be provided, all  
4     executory contracts and unexpired leases of the Debtor which are not otherwise subject to a prior  
5     Bankruptcy Court order or pending motion before the Bankruptcy Court are rejected by  
6     Reorganized Debtor on the Effective Date. The Confirmation Order shall constitute an order  
7     authorizing rejection of all other executory contracts and unexpired leases except those otherwise  
8     specifically assumed herein or otherwise provided for or subject to other Court Order or pending  
9     motion. Reorganized Debtor shall promptly pay all amounts required under Section 365 of the  
10    Bankruptcy Code to cure any defaults for executory contracts and unexpired leases being  
11    assumed by performing its obligations from and after the Effective Date in the ordinary course of  
12    business.

13                   7.2     Assignment. To the extent necessary, all assumed executory contracts and  
14 unexpired leases shall be deemed assigned to Reorganized Debtor as of the Effective Date. The  
15 Confirmation Order shall constitute an order authorizing such assignment of assumed executory  
16 contracts and unexpired leases, and no further assignment documentation shall be necessary to  
17 effectuate such assignment.

18                   7.3     Rejection Claims. Rejection Claims must be Filed no later than 30 days  
19 after the entry of the order rejecting the executory contract or unexpired lease or 30 days after the  
20 entry of the Confirmation Order, whichever is sooner. Any such Rejection Claim not Filed  
21 within such time shall be forever barred from asserting such Claim against Debtor, Reorganized  
22 Debtor, its Property, estates, and any guarantors of such obligations. Each Rejection Claim  
23 resulting from such rejection shall constitute a Small or General Unsecured Claim, as applicable.

## ARTICLE 8

## EFFECT OF CONFIRMATION

26 8.1 **Debtor's Injunction.** The effect of confirmation shall be as set forth in

1 Section 1141 of the Bankruptcy Code. Except as otherwise provided in the Plan or in the  
 2 Confirmation Order, confirmation of the Plan shall act as a permanent injunction applicable to  
 3 entities against (a) the commencement or continuation, including the issuance or employment of  
 4 process, of a judicial, administrative, or other action or proceeding against Reorganized Debtor  
 5 that was or could have been commenced before the entry of the Confirmation Order, (b) the  
 6 enforcement against Reorganized Debtor or their assets of any judgment, award, decree or order  
 7 obtained before the Petition Date, and (c) any act to obtain possession of or to exercise control  
 8 over, or to create, perfect or enforce a lien upon all or any part of the property of the Debtor or  
 9 Reorganized Debtor, (d) the assertion of any setoff, right of subrogation, reimbursement or  
 10 recoupment of any kind, directly or indirectly, against any obligation due the Debtor or the  
 11 Estate on account of any Claim except in the context of a Disputed Claim and only if allowed by  
 12 the Bankruptcy Court, and (e) the exercise of any provision contained in any contract, lease or  
 13 instrument which is or was entered into or issued by the Debtor prior to the Petition Date and  
 14 which is not cancelled or rejected under the Plan that allows a Claimant to declare, or that  
 15 declares, a default based upon the filing of the petition in this Case, the insolvency or financial  
 16 condition of the Debtor or the subjective insecurity of such Claimant.

17 **ARTICLE 9**

18 **RETENTION OF JURISDICTION**

19 9.1 Notwithstanding the entry of the Confirmation Order and subject to the  
 20 terms of the Settlement Agreement, the Court shall retain jurisdiction of this Chapter 11 Case  
 21 pursuant to and for the purposes set forth in Section 1127(b) of the Bankruptcy Code:

22 (a) to classify the Claim or interest of any Creditor or  
 23 stockholder, reexamine Claims or Interests which have been owed for voting purposes and  
 24 determine any objections that may be Filed to Claims or Interests,

25 (b) to determine requests for payment of Claims entitled to  
 26 priority under Section 507(a) of the Bankruptcy Code, including compensation and

1 reimbursement of expenses in favor of professionals employed in these Bankruptcy Cases,  
2 (c) to avoid transfers or obligations to subordinate Claims  
3 under Chapter 5 of the Bankruptcy Code,  
4 (d) to approve the assumption, assignment or rejection of an  
5 executory contract or an unexpired lease pursuant to this Plan,  
6 (e) to resolve controversies and disputes regarding the  
7 interpretation of this Plan,  
8 (f) to implement the provisions of this Plan and enter orders in  
9 aid of confirmation,  
10 (g) to determine the validity, priority or extent of any claim or  
11 claim of lien,  
12 (h) to adjudicate adversary proceedings and contested matters  
13 pending or hereafter commenced in the Bankruptcy Case, and  
14 (i) to enter a final decree closing the Bankruptcy Case.

## 15 **ARTICLE 10**

### 16 **ADMINISTRATIVE PROVISIONS**

17 10.1 Modification or Withdrawal of the Plan. The Debtor may alter, amend or  
18 modify the Plan pursuant to Section 1127 of the Bankruptcy Code and Bankruptcy Rule 3019 at  
19 any time prior to the time that the Bankruptcy Court has signed the Confirmation Order. After  
20 such time, and prior to the substantial consummation of the Plan, the Debtor may, so long as the  
21 treatment of holders of Claims and Interests under the Plan is not adversely affected, institute  
22 proceedings in Bankruptcy Court to remedy any defect or omission or to reconcile any  
23 inconsistencies in the Plan, the Disclosure Statement or the Confirmation Order, and any other  
24 matters as may be necessary to carry out the purposes and effects of the Plan; provided, however,  
25 that prior notice of such proceedings shall be served in accordance with Bankruptcy Rule 2002.

26 10.2 Revocation or Withdrawal of Plan

8                           10.3 Nonconsensual Confirmation. Debtor shall request that the Bankruptcy  
9 Court confirm the Plan pursuant to Section 1129(b) of the Bankruptcy Code if the requirements  
10 of all provisions of Section 1129(a) of the Bankruptcy Code, except subsection 1129(a)(8), are  
11 met.

## ARTICLE 11

## **MISCELLANEOUS PROVISIONS**

14                   11.1 Revesting. Except as otherwise expressly provided herein, on the  
15 Effective Date, all property and assets of the estate of the Debtor shall vest in Reorganized  
16 Debtor, free and clear of all claims, liens encumbrances, charges and other Interests of Creditors  
17 arising on or before the Effective Date, and Reorganized Debtor may operate, from and after the  
18 Effective Date, free of any restrictions imposed by the Bankruptcy Code or the Bankruptcy  
19 Court.

1                   11.3 Headings. The headings in this Plan are for convenience of reference only  
 2 and shall not limit or otherwise affect meanings of the Plan.

3                   11.4 Notices. Unless otherwise agreed to between a Claimant and the Debtor  
 4 or the Reorganized Debtor, as may be applicable, or otherwise stated in this Plan, all notices  
 5 required or permitted to be made in accordance with the Plan shall be in writing and shall be  
 6 delivered personally or by regular or certified mail, return receipt requested. Notices to the  
 7 Reorganized Debtor shall be sent to: Tara J. Schleicher, Farleigh Wada Witt, 121 SW Morrison,  
 8 Ste. 600, Portland, Oregon 97204. Notice to a holder of an Allowed Claim shall be directed to  
 9 the address set forth within its proof of claim filed with the Bankruptcy Court, or if none, to its  
 10 address set forth in the Schedules. Notices shall be deemed given upon delivery, if personally  
 11 delivered, and upon mailing, if mailed. Any person may change the address at which such  
 12 person is to receive notices under the Plan by sending written notice, pursuant to the provisions  
 13 of this section, to the Reorganized Debtor and any other person to be charge with knowledge of  
 14 such change.

15                  11.5 Governing Law. Except to the extent the Bankruptcy Code, the  
 16 Bankruptcy Rules or other federal laws are applicable, the laws of the State of Oregon shall  
 17 govern the construction and implementation of the Plan, and all rights and obligations arising  
 18 under the Plan.

19                  11.6 Withholding and Reporting Requirements. In connection with the Plan  
 20 and all instruments issued in connection therewith and distributions thereon, the Debtor and  
 21 Reorganized Debtor shall comply with all withholding, reporting, certification and information  
 22 requirements imposed by any federal, state, local or foreign taxing authorities and all  
 23 distributions hereunder shall, to the extent applicable, be subject to any such withholding,  
 24 reporting, certification and information requirements. Entities entitled to receive distributions  
 25 hereunder shall, as a condition to receiving such distributions, provide such information and take  
 26 such steps as Reorganized Debtor may reasonably require to ensure compliance with such